Audit Result Request

- Financial Execution on Budget from Korean Government to GGGI -

(Requested by National Assembly)

2012.11.

Bureau of Audit and Inspection

Table of Contents

Table of Charts

Table of Pictures

I. Overview of the Audit

1. **Background and objectives**

According to Article 127, clause 2 of National Assembly Law, National Assembly (Foreign Affairs, Trade and Unification Committee) requested audit on Global Green Growth Institute (GGGI), focusing on financial execution on budget from Korean Government on 5 September 2012.

2. **Organization for Audit and focusing area**

The audit targets Ministry of Foreign Affairs and Trade, Korea International Cooperation Agency (KOICA), and GGGI according to the request from the National Assembly. The main objective is to review organization operation cost (including salary and various allowances and appropriateness of the payment) and project budget management (including service contract with McKinsey & Company).

3. **Period and Audit Team**

From 10 to 14 September 2012, 4 auditors participated in preliminary review. For 15-day period of actual review, 7 auditors participated from 17 September to

10 October 2012. After internal process of BAI on November 2012, the result of the audit was finalized.

II Establishment of GGGI and it's Operations

1. Background

In 15 August 2008, the Korean government declared "Low Carbon Green Growth" as the new development paradigm of the Republic of Korea and established the Global Green Growth Institute on 15 June 2010, with funds from the Korea International Cooperation Agency (KOICA), a organization affiliated with the Ministry of Foreign Affairs, to assist developing countries in the design and implementation of green growth strategies, and to disseminate green growth globally. (view [table 1])

[Table 1] GGGI Establishment Timeline

Date	Subject
15 Aug 2008	In 15 August 2008, the Korean government declared "Low Carbon Green Growth" as the new development paradigm of the Republic of Korea
17 Dec 2009	Presentation of GGGI establishment plan at COP 15 in Copenhagen

7 Apr 2010	Instruction by President Lee Myung-bak to establish GGGI by first half of 2010 (International Organization by 2012 with support from Ministry of Foreign Affairs and Trade and Ministry of Strategy and Finance)
19 Apr 2010	The Presidential Committee on Green Growth requests the establishment of GGGI as an affiliated organization to Korean International Cooperation Agency(KOICA).
20 Apr 2010	Decision by KOICA board of directors to establish GGGI
14 May 2010	Registration of Non-Profit Organization under Korean Law
16 June 2010	Announcement of GGGI Establishment at East Asia Climate Forum 2010

*reproduced by GGGI submitted documents

Since then, the GGGI has been working towards converting into an international organization with activities such as establishing regional offices in Abu Dhabi, UAE and Copenhagen, Denmark and as seen in [table 2], 16 countries including Korea, Denmark, UK, and Australia signed the "Agreement on the Establishment of the Global Green Growth Institute" in Rio de Janeiro on 20 June 2012.

Following the Signing Ceremony at Rio, Denmark, Guyana and Kiribati submitted their Instrument of Ratification of the Establishment Agreement, legally converting the GGGI into an international organization on 18 October. In the same year, the ratification documents were submitted to the Korean National Assembly on 29 August, and in 23 October, the GGGI held a Opening Ceremony of the Inaugural Meetings of the Assembly and Council, launching the GGGI as an international organization.

[Table 2] GGGI International Organization Conversion Timeline

Date	Subject
11 May 2011	Establishment of Copenhagen, Denmark regional office, MOU signed with Danish government
7 July 2011	Establishment of Abu Dahbi, UAE regional office
20 June 2012	Signing Ceremony of the Agreement on the Establishment of the GGGI at Rio de Janeiro, Brazil -Signatories: Korea, Denmark, UK, Australia, UAE, Guyana, Qatar, Philippines, Cambodia, Ethiopia, etc -If 3 Signatories ratify the Establishment Agreement, the Establishment Agreement takes legal effect
29 August 2012	Submission of ratification documents to Korean National Assembly
18 October 2012	Denmark, Guyana and Kiribati ratification takes effect, fulfilling requirements for an international organization
23 October 2012	Opening Ceremony of the Inaugural Meetings of the Assembly and Council in Seoul

2.The Legal Nature of GGGI

GGGI is an organization established and registered with the MOFAT as a non-profit foundation on May 14, 2010. Accordingly, it has been under the general instruction and supervision of the MOFAT according to the related regulations, such as submitting annual business performance report.

Moreover, the MOFAT drew up and executed the needed budget for establishing and operating GGGI, such as operating and business expenses, as well as the basic property of GGGI, as contribution from KOICA under the jurisdiction of the MOFAT. In this behalf, GGGI is under the supervision of both the MOFAT and KOICA (through submission of performance reports and semi-annual review and analysis report).

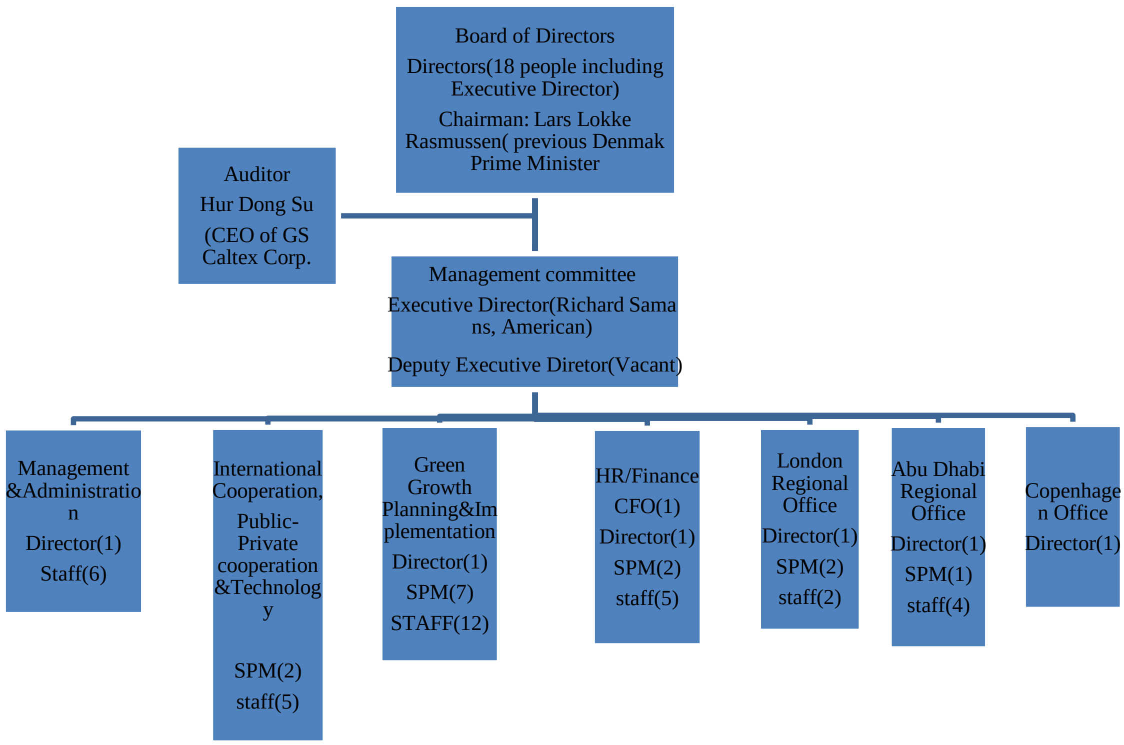
On the other hand, as the Agreement on GGGI's conversion into an international organization enters into force on October 18, 2012 and goes through the ratification process in Korea, the Korean government is expected to draw up a budget and support GGGI with its share of contribution for the international organization instead of a contribution from the KOICA, and an independent external auditor, who the Council of GGGI nominates, will annually conduct the guidance, supervision and audit on this issue according to the international accounting standard.

3.GGGI's Organization and Employment Status

GGGI organization is classified with Board of Directors, Facilitative Committee of the Board of Directors, Management Committee, Advisory Council, Headquarters and branch offices. Board of Directors is the supreme decision-making body and it is composed of 18 people, 1 person recommended by the government of the country where the headquarters of the GGGI is located, 11 people recommended by the government or the organization which has made a certain amount of contribution to GGGI, 4 internationally recognized green growth and climate change experts, and 2 green growth and climate change experts of developing countries. Han, Seung Soo (term: June 2010 ~ June 2012, a previous Korean Prime Minister) and Rasmussen at present (term: June 2012 ~ June 2015, previous Denmark Prime Minister) has been appointed to the chairman of the board (non-executive). Heo Dong Su (since June2012, CEO of GS Caltex Corp.) is the auditor (non-executive) but GGGI is supposed to be audited by independent external audit institutions which are entrusted by the auditor.

GGGI, as shown in the picture below, is organized with Seoul Headquarter and three overseas branches (Copenhagen, Denmark: 1 staff; London, England: 5 staffs, in the process of preparing legal entity; Abu Dhabi, UAE: 6 staffs). Seoul Headquarter consists of Management and Administration (7 staffs), Public-private Partnership (7 staffs), Green Growth Planning and Implementation (20 staffs), Operation Department (9) and its total of 60 staffs.

[GGGI Organization Chart]



4. GGGI Income and Expenditure Status

As presented in the figure 3, GGGI received supporting fund from KRW 31,300 from Republic of Korea, Denmark (KRW 11,968million) Australia (KRW 5,802 million), etc. Total amount of KRW 26,176 million funded by 6 other countries. Out of KRW 57,476 million, the ratio of Korea's fund takes part of 54.5% and separate incomes from private enterprise (financial institution, corporation, group, etc.) such as KRW 358 million in 2011 (European Bank for Reconstruction and Development), KRW 1,414 million until July 2012 (EBRD and the other 6 institutions 5)), total amount of KRW 1,772 million.

Of these supported funds, if we take a look at execution break down of Korea's fund as presented in [table 4], GGGI executed KRW 23,421 million from 2010.06 to 2012.07. Therefore, the execution rate is reaching 74.8% (payable account KRW 7,879 million from Korean fund as the end of 2012 July). Out of this execution rate, project management expenses shares 59.1% (KRW 11, 493 million), and the operation expenses shares 46.9% (10, 981 million).

[Table 3] GGGI Revenue by country

(Unit : million won, %, 1$=1087.00 won)

	Total (%)	2010	2011	2012(1-7)
Total	57,476 (100)	11,363	20,880	25,233
▶ ROK	31,300 (54.5)	11,363	11,800	8,137
▶ Foreign Countries	26,176 (45.5)		9,080	17,096
Denmark	11,960		6,311	5,649
UAE	5,684		1,579	4,105
Japan	1,128		1,128	
Germany	583		62	521
Australia	5,802			5,802
UK	1,019			1,019

Data - Rearranged the data from GGGI's

Outsourcing(8,834 million won), accounting for 76.9% of total project expenses (11,493 million won) is the biggest portion out of total expenses. And the personnel cost(6,067 million) contributes to 55.2 % of total administrative cost (10,981 million) which is second largest portion of total expenses.

[Table 4] Expense by line item (ROK support)

(Unit : million won, %,1$=1087.00 won)

	Total (%)	2010	2011	2012(1-7)
Total	23,421(100)	4,082	10,893	8,446

▶ **Project cost**	**11,493(49.1)**	**1,697**	**5,533**	**4,263**
Outsourcing [1)]	8,834	1,423	4,025	3,386
Multilateral aid [2)]	421		346	75
Other project cost	2,238	274	1,162	802
▶ **Admin. Cost**	**10,981(46.9)**	**2,385**	**5,360**	**3,236**
Personnel cost	6,067	417	2,849	2,801
Rental, Utilities	1.727	261	1,031	435
Asset purchase	2,228	1,103	1,125	
Other admin. cost	959	604	355	
▶ **IO Conversion**	**947(4.0)**			**947**

Data - Cash basis

And GGGI appointed Richard Samans as Executive Director of GGGI in March 13, 2011, who was the former Managing Director of World Economic Forum and made a hiring contract with him for 2 years duration and his annual salary is $390,000.

National Assembly questioned that GGGI has been paying the compensation for ED according to the employment contract but without compensation rules and that he is paid higher than heads of other international organizations. In this context, National Assembly has requested the Audit to BAI for examining the adequacy of compensation of Executives and employees.

[Table 5] <u>GGGI Salary Structure and Comparison with Actual Average of Annual Salary by Position</u>

Cassification	Salary structure		Actual Average annual salary	
	Minimum	maximum	Position	amount
	20,500	39,800	Executive Director	44,070
			Deputy Director	20,566
Director	13,700	28,400	Director	13,012
Senior Manager & Senior Researcher	7,970	14,200	International employee	9,658
			National employee	8,449
Manager & Staffs	3,420	8,540	International Employee	4,600
			National employee	4,078
Secretariat	2,280	3,980	-	-

(1$=1087.00 won)

Afterwards, GGGI didn't reflected the salary structure, as shown above, in GGGI Rules on Compensation which has been implemented since 2010.11.01, however, when you see the actual average annual salary of employees who made employment agreements with GGGI, deputy directors are paid KRW 256,060,000, directors are paid KRW 130,0120,000, senior managers and senior researchers(foreigner) are paid KRW 96,580,000, managers and staffs are paid KRW 46,000,000, and they have not been exceeded the maximum limit which was set up at first.

Also, the annual salary of Executive director, Richard Samans, is about KRW 440,700,000 exceeding the maximum wage of KRW 398,000,000 by KRW 42,700,000 which was set up at first. However, his salary is at the level of presidents of other international institutes and foundations which were comparable initially, and furthermore, he was paid higher then GGGI from his previous employer, WEF, and it was approved by submitting the information to BAI through this audit.

Meanwhile, GGGI pays allowances other than annual salary in accordance with GGGI Budget Execution Guidelines, and they are classified as position allowances, conferences allowances, business allowances, medical allowances and other welfare allowances. The Execution status by year and items are as below table.

[Table 6] <u>GGGI Allowance standard and execution status</u>

(amount unit: 1000)

classification	Payment standard	Execution status		
		2010	2011	till Nov 2012

Allowances other than annual salary				
Position allowances	Chairman: KRW3,000,000 Executive Director: KRW2,000,000	26,400	48,600	39,216
Special allowances	Secretariat: KRW200,000 Driver: KRW200,000	9.500	16,000	11,433
Dispatch allowances	Dispatch: KRW1,500,000 Internationally dispatch: KRW2,000,000	8,000	44,700	85,479
Transportation	KRW200,000 / month	4,200	68,342	78,213
Meal Allowances	KRW 200,000 / month	6,000	64,051	75,413
Housing Allowances	In accordance with employment agreement		60,518	123,333
Education allowances	Primary: KRW25,000,000 Secondary: KRW30,000,000	169,189	360,675	227,521
Other operation allowances				
Non-executives business allowances				
Conference allowances	KRW1,000,000 * 1 time	18,400	-	-
Other welfare allowances			-	-
Medical expenses	1 person/KRW3,000,000*3 persons			
Medical check-up	1 person/KRW1,000,000/1yr			
Fitness & others	1 person/KRW200,000/month			

(1$=1087.00 won)

In this regard, Ministry of Foreign Affairs and Trade requested of reserve fund to Ministry of Strategy and Finance for establishment of GGGI on April 30th 2010 and recognized the essentialness of recruiting highly competitive global talents to carry forward a successful business of GGGI by suggesting compensations and benefits at the level of international competitiveness.

Ministry of Foreign Affairs and Trade considered that the salary level of presidents of international institutes and foundations is between KRW 420,000,000 and KRW 740,000,000, and decided to pay KRW 250,000,000 ~ KRW 398,000,000 to executive directors, KRW 137,000,000 ~ KRW 284,000,000 to directors; KRW 79,700,000 ~ KRW 142,000,000 to senior managers and senior researchers, and KRW 34,200,000 ~ KRW 85,400,000 to managers and staffs. This salary structure was resolved at the Cabinet council on May 18th 2010.

III. Audit Findings

Overview of Audit Findings
❏ As part of its “low-carbon green growth” policy, one of the national administration projects, the Korean government intends to promote green growth on the global agenda and support the green growth of developing countries. O Thus, it set up the Global Green Growth Institute (GGGI) on May 14, 2010 as a non-profit foundation with the participation of countries including Denmark and the UAE and vigorously pushed for its conversion into an international organization.

O On June 20, 2012, sixteen countries including Korea, Denmark, the United Kingdom, and Australia concluded the “Agreement on the Establishment of the Global Green Growth Institute” in Rio de Janeiro, Brazil. On October 18, 2012, ratification of the Agreement by Denmark, Guyana, and Kiribati entered into force. As a result, the GGGI held its inaugural meetings on October 23, 2012 as the first Korean-led international organization.

❏ In connection with this, the Board of Audit and Inspection conducted an audit of the GGGI’s execution of its government-subsidized budget from September 17 to October 10, 2012 according to the National Assembly’s audit request on September 5, 2012. Its findings are summarized as follows:

O In executing organizational operation expenses including personnel expenses, the GGGI paid an excessive amount of housing and child education allowances, inconsistent with its employment agreements. In addition, it paid various allowances including dispatched service allowance without clear and concrete standards.

O Resorting to outsourcing in implementing major projects, the GGGI concluded optional contracts in some cases, which is against its internal rules. In other cases, it failed to carry out sufficient follow-up management of such projects. As a result, a number of projects were delayed beyond their contractual period. This compromised efficiency and transparency of its budget execution.

❏ These problems are seemingly attributable to the fact that the GGGI, with insufficient manpower, pressed ahead with its conversion into an international organization over a short time span without formulating rules necessary for organizational operation in advance, such as rules on management of organization, human resources, and budget execution, in its establishment process. This situation is also ascribable to ineffective guidance and supervision by the Ministry of Foreign Affairs and Trade, the agency in charge of overseeing the GGGI.

O The audit findings show that these defects need to be addressed to enhance transparency of the GGGI's budget execution and ensure efficiency in its organizational operation so that it may effectively attain its goal of promoting global green growth.

1 Execution of Organizational Operation Expenses

[Problem]

▪ In executing organizational operation expenses including personnel expenses, the GGGI paid an excessive amount of allowances including housing, meeting attendance, and dispatched service allowances or applied unreasonable payment standards.

1 Unreasonable Payment of Housing and Child Education Allowances to Executive Director

Based on an open recruitment process, the Board of Directors of the GGGI decided in July 2010 to appoint Richard SAMANS, the managing director of the World Economic Forum (WEF), as its executive director (standing director). Then, it concluded an employment agreement with said person on March 13, 2011, under which it has been paying him housing and child education allowances, etc.

The employment agreement above provides that said person shall receive, from March 13, 2011 to March 12, 2013, a housing allowance of up to KRW 8.5 million per month and a child education allowance of up to USD 18,000 per child/year in addition to a basic annual salary of USD 390,000 (inclusive of taxes, insurance costs, etc.; equivalent to about KRW 440.7 million) as compensation for his assumption of responsibility for operation of the GGGI as its executive director including making reports to its Board of Directors.

① Payment of Housing Allowance

In the meantime, said person entered Korea on a business trip and stayed at a hotel for 44 days, during the period from March 20, 2011 to August 15, 2011 (156 days), until he found residence in the country on August 15, 2011.

Out of personnel expenses, allowances are paid at an appropriate level, in addition to basic annual salary, as needed depending on working and living conditions and the like. As for the housing allowance, costs actually incurred by an expatriate when he or she changes residence in the employment process should be paid.

Accordingly, the GGGI should have paid the housing allowance to said person under its payment limit of KRW 8.5 million per month until he leased a house in Korea on August 15, 2011 to reside in the country, based on materials evidencing his actual housing costs such as hotel bills during his sojourn in the country during said period, including receipts.

However, the GGGI fully paid him a total of KRW 43,322,580 [calculated on a pro-rata daily basis for March (19 days) and August (15 days)] as a housing allowance for 156 days in total by applying a maximum monthly payment limit of KRW 8.5 million stipulated in said employment agreement without ascertaining the housing costs actually incurred by him while he stayed in Korea during said period.

As a result, an excessive amount of KRW 39,481,230 was paid to said person, who stayed at a hotel instead of renting a house to reside in the country.

② Payment of Child Education Allowance

Article 11(2) of the GGGI Compensation Regulation stipulates that an employee with a child who needs to attend an international elementary school is entitled to a child education allowance of up to KRW 25,000,000 per year.

In concluding an employment agreement with said person on March 13, 2011, the GGGI determined that it would pay such child education allowance in the amount of up to USD 18,000 per child/year.

Accordingly, the GGGI should have reimbursed out-of-pocket expenses as the child education allowance based on evidentiary materials within a limit set in the employment agreement, causing any excess to be borne by said person. In concluding a modified employment agreement based on the judgment that the amount of the child education allowance set forth in the original employment agreement was too small, the GGGI should have provided that the child education allowance of up to KRW 25,000,000 per child/year shall be paid to said person.

However, the GGGI, unlike the employment agreement with said person, put his child education allowance per child at KRW 32,150,000 on August 31, 2011, KRW 12,962,000 more than the contractual upper limit of KRW 19,188,000 (USD 18,000 × then-effective exchange rate of KRW 1,066/dollar). Thus, the GGGI paid a child education allowance of KRW 64,300,000 to said person for his two children, paying KRW 25,924,000 in excess.

In the meantime, the GGGI, in concluding a modified employment agreement with said person on June 15, 2012, decided to pay said person a child education allowance of KRW 30,000,000 per child, KRW 5,000,000 above the KRW 25,000,000 limit per child as provided in the GGGI Compensation Regulation. In addition, the GGGI determined that such amount would apply retroactively from March 13, 2011 when the original employment agreement was signed.

Action to Be Taken: The chairman of the Global Green Growth Institute (GGGI) should prevent a housing allowance from being paid to its executive director merely based on its monthly payment limit without ascertaining actual housing costs. In addition, he is advised to ensure that payment of an excessive amount of a child education allowance in a manner inconsistent with an employment agreement and retroactive application of such amount based on conclusion of a modified employment agreement, in violation of the GGGI Compensation Regulation, will not occur again. **[Admonition]**

2 Unreasonable Payment of Various Allowances including Dispatched Service Allowance

The GGGI has been paying many different allowances, including the dispatched service allowance, the housing allowance, and government employee pension contributions, to its officers and employees in accordance with the GGGI Compensation Regulation or an employment agreement, etc.

In connection with this, the GGGI, as a non-profit foundation registered with the Ministry of Foreign Affairs and Trade, has been receiving government contributions from the Korea International Cooperation Agency to finance its operation. Accordingly, the GGGI should have formulated reasonable rules on the payment targets, requirements and levels concerning employee wages and allowances in line with the purpose of its establishment, and executed such costs in an efficient fashion based on such rules.

① Payment of Dispatched Service Allowance

Articles 3(1)5 and 14(1) of the GGGI Compensation Regulation provide that a dispatched service allowance of up to KRW 1.5 million may be paid to a worker associated with any other organization and working for the GGGI for a month or longer.

Therefore, only a worker providing full-time service to the GGGI for at least one month under a dispatch order from his or her organization is entitled to the dispatched service allowance. Thus, the GGGI should not have paid the dispatched service allowance to any worker who did not receive a dispatch order from his or her organization and simply assisted the GGGI on a non-full-time basis.

However, the GGGI paid a total of KRW 12 million as a dispatched service allowance (KRW 1 million per month), in addition to an allowance of KRW 400,000 for a post per month, to Yeon-Chul YOO, an employee of the Ministry of Foreign Affairs and Trade (currently, an officer at the Ministry of Environment), who was dispatched in the capacity of the head of the International Cooperation Team of the Presidential Committee on Green Growth and took charge of supporting establishment and operation of the GGGI, on grounds that he served as a temporary CFO from June 2010 to May 2011, even though he had been receiving an allowance (monthly allowance for a post) from the Presidential Committee on Green Growth and was not dispatched to the GGGI again.

Concerning Chan Ho PARK, the head of the Global Legal Research Center of the Korea Legislation Research Institute, the GGGI paid him KRW 2 million in December 2010 as advisory fees and also paid KRW 20 million in total (KRW 1 million per month) as a dispatched service allowance on grounds that he provided legal advice from June 2010 to January 2012, even though he was not dispatched to, nor worked for the GGGI on a full-time basis, until he took a leave of absence in February 2012.

② Payment of Meeting Attendance Allowance Before Establishment

Meeting attendance allowances should be paid based on materials evidencing actual summoning of a meeting, the date of attendance, etc. to the extent that there exist rules on payment targets, standards, amount, etc.

Despite the fact that the GGGI has no such rules allowing payment of meeting attendance allowances, it paid KRW 9 million in total (minimum KRW 1.8 million to maximum 2.4 million) on December 30, 2010 as indicated in [Table 7] to four government employees, who carried out their given duties, in the name of pre-establishment meeting attendance allowances without collecting any evidentiary materials on the frequency, time, and attendees of meetings on grounds that they laid out a plan to set up the GGGI and formulated a staffing and financing method prior to establishment of the GGGI.

[Table 7] Payment of Meeting Attendance Allowances Prior to Establishment of the GGGI

(Unit: KRW, 1$=1087.00 won)

Description	Payee	Association	Amount	Remarks
Total			9,000,000	▸ Time, frequency, etc. of meetings unidentifiable
▪ Meetings prior to establishment of the GGGI	Sang-hyup KIM	Office of the President; a non-standing director of the GGGI	2,400,000	
	Yeon-Chul YOO	Presidential Committee on Green Growth	2,400,000	
	Sungbin YIM	Office of the President	2,400,000	
	Won JANG	Presidential Committee on Green Growth	1,800,000	

Source: Recompilation of materials submitted by the GGGI, etc.

③ Payment of Housing Allowance

According to the GGGI Budget Execution Guidelines (June 17, 2011), a housing allowance may be paid to foreign expatriates stationed in Seoul. In addition, the GGGI Overseas Leased Housing Management Guidelines (June 17, 2011) stipulate that a housing allowance equivalent to rent which is stated in a lease contract shall be paid to an employee working for its overseas branch under the maximum limit of monthly rent payment.

Out of personnel expenses, allowances are paid at an appropriate level, in addition to basic annual salary, as required depending on working and living conditions, and the like. As for the housing allowance, the GGGI should reimburse out-of-pocket expenses under a certain limit according to clear standards, causing any excess to be borne by the employee concerned.

Despite this situation, the GGGI paid KRW 63,400,283 in total (KRW 5.2 million per month) on a pro-rata daily basis from June 14, 2011 to June 13, 2012 to Tae Yong JUNG, the former vice executive director who relocated from Manila, Philippines to Seoul, on the basis of his employment agreement providing for payment of a housing allowance of up to KRW 5.2 million per month without confirming the actual amount of rent and specifying the targets, limits, methods, etc. of housing allowance payment in applicable rules including the GGGI Budget Execution Guidelines.

In addition, the GGGI paid housing allowances (minimum KRW 1.25 million ~ maximum KRW 8 million per month) to seven out of ten foreign expatriates stationed in Seoul based on actual rent receipts, unlike the vice executive director above. In contrast, the GGGI has been paying no housing allowance to the remaining three expatriates without any justifiable cause.

Besides, four employees working for the branches in Copenhagen, Denmark, and London, the United Kingdom had respectively been living in Denmark and the United Kingdom before they entered into an employment agreement with the GGGI. Although they did not change their residence due to such employment agreement, the GGGI, in breach of said Overseas Leased Housing Management Guidelines, paid a fixed monthly amount of USD 1,500 to 2,000, i.e. USD 57,542 in total (equivalent to KRW 61,413,639) as housing allowances from June 2011 to September 2012, failing to ascertain whether they had actually leased their housing.

There exist concerns that such inconsistency in payment of housing allowances might lead to inefficient execution of a relevant budget or undermine equality of treatment among employees.

④ Payment of Government Employee Pension Contributions

The GGGI Compensation Regulation provides that the GGGI shall pay a variety of allowances including the allowance for a post, dispatched service allowance, business promotion expenses, lunch expenses, and transportation expenses in addition to basic pay. The Regulation does not define government employee pension contributions as a type of allowance that must be paid in addition to basic pay, which means that they should be deducted from individual employees' basic pay. Accordingly, the GGGI should not have concluded an employment agreement to the effect that such contributions would be paid as an allowance payable on top of basic pay.

However, the GGGI entered into an employment agreement on March 29, 2011 with Joo Sueb LEE, who took a leave of absence from the Ministry of Strategy and Finance, to the effect that it would pay KRW 330,000 a month as government employee pension contributions, in addition to basic monthly pay of KRW 7.9 million and KRW 200,000 in lunch and transportation expenses respectively. Under the agreement, the GGGI paid him KRW 5.94 million in total as government employee pension contributions from April 2011 to September 2012.

Action to Be Taken: The chairman of the Global Green Growth Institute (GGGI) is advised not to apply its budget inefficiently by paying dispatched service allowances, meeting attendance allowances, housing allowances, and government employee pension contributions at his sole discretion or in an inconsistent manner, in breach of the GGGI Compensation Regulation, etc., or without any rules providing rationale for their payment. **[Admonition]**

3 Unreasonable Provision of Exclusive Vehicle and Corporate Credit Card to Non-Standing Director

The GGGI operates the Board of Directors consisting of 17 non-standing directors (including the chairman) and an executive director, who is a standing director, to support its activities.

Since a non-standing director is not engaged in affairs of the GGGI on a full-time basis, it is reasonable to provide financial assistance to such director only to the extent that business needs arise. Even in case where the GGGI supports activities by a non-standing director out of business needs, it should execute its budget transparently according to rules specifying the rationale, targets, etc. of support.

Article 19 of the GGGI Compensation Regulation provides that exclusive vehicles shall be supplied to the chairman and executive director only and that up to KRW 3 million's monthly compensation be paid to a chauffeur for their operation.

Accordingly, it is not allowed to provide exclusive vehicles to any non-standing director other than the chairman or executive director and render financial assistance including compensation for a chauffeur.

Nonetheless, the GGGI rented a YF Sonata (total rent of KRW 3.85 million) for over five months from April 20, 2011 to September 30, 2011 and allocated the vehicle to Sang-hyup KIM, a non-standing director (then Secretary and current Senior Secretary to the President for Green Growth and Environment), not entitled to an exclusive vehicle, for his exclusive use. Thus, the GGGI disbursed KRW 27,472,066 in total as compensation for a chauffeur and maintenance costs of the vehicle.

In addition, the GGGI enacted the GGGI Corporate Credit Card Regulation in November 2010 (date unknown). Said Regulation stipulates that individual corporate credit cards shall be provided to the chairman, executive director, vice-executive director, CFO, and a director and that in the event of incurrence of business promotion expenses, etc. based on use of a corporate credit card, the person concerned shall submit evidentiary documents clearly stating details of its use including the purpose, time, place, and target of disbursement to ensure transparent use of a corporate credit card.

The GGGI formulated said Regulation, but failed to enforce it, as demonstrated by the fact that it issued an individual corporate credit card to the non-standing director above, who is not eligible to such card under said Regulation. Thus, it allowed the non-standing director to disburse business promotion expenses in the amount of KRW 31,507,694 over 123 occasions from August 23, 2010 to September 5, 2012.

Besides, the GGGI did not collect evidentiary documents specifying details of its use (purpose, time, place and target of disbursement, etc.) regarding 108 payments made prior to January 27, 2012. Out of those payments, 73 payments were fully reimbursed without confirming whether they were actually made for a purpose related to the GGGI's business affairs in a situation where credit card bills were submitted in lieu of evidentiary documents.

Action to Be Taken: The chairman of the Global Green Growth Institute (GGGI) should ensure that any non-standing director not entitled to a vehicle for his exclusive use shall not be provided with such vehicle. In addition, the chairman is advised to implement the Corporate Credit Card Regulation as soon as possible and handle matters pertaining to issuance and management of corporate credit cards thoroughly to warrant appropriate management and control of their use. **[Admonition]**

2 Disbursement of Project Costs

[Problem]

▪ In performing outsourcing projects to help developing countries formulate green growth development strategies, the GGGI executed its budget in an inefficient manner through reckless conclusion of optional agreements and sloppy management of those projects.

1 Unreasonable Conclusion and Management of Outsourcing Agreements

With a view to formulating and supporting green growth plans of developing countries, the GGGI entered into twenty outsourcing agreements on the East Asia Climate Partnership (EACP) initiative and five outsourcing agreements on research from September 28, 2010 to September 7, 2012. Since then, it has poured KRW 9.622 billion into the projects.

① Selection of Outsourced Entities and Conclusion of Agreements

Paragraphs 1 and 3 of Chapter I and Paragraph 6 of Chapter IV of the GGGI Procurement Regulation (March 31, 2011) provide that open competition among bidders is required in principle to ensure transparency and openness of contract conclusion procedures. However, conclusion of an optional agreement is permitted on an exceptional basis if the amount of outsourcing is no more than USD 100,000 or if a partner which signed an MOU with the GGGI is suitable for the purpose and scope of a project.

As a non-profit foundation associated with the Ministry of Foreign Affairs and Trade, the GGGI has been a beneficiary of government contributions through the Korea International Cooperation Agency. Therefore, when the GGGI pursues an outsourcing project, it would be desirable to apply related rules of the Korea International Cooperation Agency *mutatis mutandis* even prior to formulation of the said Regulation, selecting an entity based on open competition if possible and executing a budget fairly and transparently.

In carrying out outsourcing projects, however, the GGGI signed all 25 outsourcing agreements concluded from September 2010 to September 2012 in the form of an optional agreement, including a USD 4,250,000 (equivalent to about KRW 4.7 billion) outsourcing agreement with Climate Works, a US foundation, entered into on September 28, 2010, as indicated in Attached Table 1, "Status of Conclusion and Management of Outsourcing Agreements Concerning the East Asia Climate Partnership (EACP)" and Attached Table 2, "Status of Conclusion and Management of Outsourcing Agreements Concerning Research."

Specifically, the GGGI concluded five optional agreements before enactment and enforcement of the GGGI Procurement Regulation (March 31, 2011). Even after enactment and enforcement of the Regulation, which mandates open competition in principle, the GGGI signed eleven optional agreements on grounds that their respective contractual amount is no more than USD 100,000 and five optional agreements respectively worth over USD 100,000 with government-funded research institutes associated with the National Research Council for Economics, Humanities and Social Sciences (NRCS) on grounds that the GGGI concluded an MOU with the NRCS on December 23, 2010. As for the remaining four contracts, the GGGI entered into optional agreements even though their respective contractual amount is over USD 100,000 and there was no clear rationale to conclude an optional agreement as stipulated in said Regulation.

As stated above, the GGGI signed optional agreements for all outsourcing projects that it pushed for with a government-subsidized budget. Thus, there exist concerns that fairness and transparency regarding selection of an outsourced entity may be compromised.

② Management of Outsourcing

Paragraph 15 of Chapter II of the GGGI Procurement Regulation provides that in concluding an agreement, it is necessary to clarify the scope of service to be performed, goods to be supplied, rights and obligations of a supplier or contractor, final deliverables, and annexed documents including financial statements and evidentiary payment documents.

Accordingly, the GGGI has to clarify the contractual period, scope of research service, etc. in concluding an outsourcing agreement so as to ensure a high quality of such service. Then, it must thoroughly manage progress in research service so that research service may be completed within the contractual period and its results be utilized in a timely fashion.

However, the research service for the Mongolia-PPP Financing Scheme Analysis regarding which the GGGI entered into an outsourcing agreement with Samjong KPMG on November 17, 2011 has not been completed seven months after its contractual period (November 2011 to February 2012). As shown in Attached Table 1, “Status of Conclusion and Management of Outsourcing Agreements Concerning the East Asia Climate Partnership (EACP)” and Attached Table 2, “Status of Conclusion and Management of Outsourcing Agreements Concerning Research”, services have not been completed two to seventeen months after the contractual periods for 17 out of 25 research service agreements concluded by the GGGI with a government-funded budget. In spite of this situation, the GGGI has not taken any measures including collection of liquidated damages.

Such sloppy management of contractual performance resulted in failures to complete research services within contractual periods and to take advantage of their results in a timely manner.

Action to Be Taken: The chairman of the Global Green Growth Institute (GGGI) should ensure that contracts are concluded in an open competition process according to applicable rules for fair and transparent execution of its research service budgets. In addition, he is advised to carry out seamless follow-up management of research service projects including prior review of the necessity of a project and imposition of liquidated damages so that outsourcing services may be completed in a timely manner and its budget be executed efficiently. **[Admonition]**

2 Unreasonable Conclusion and Management of Agreement Concerning Ethiopia Household Irrigation Technologies Research Service

With respect to the Ethiopia Household Irrigation Technologies project (amount: USD 555,000 which is equivalent to KRW 618,270,000, period: December 24, 2010 to April 24, 2011), the GGGI concluded a research service agreement with ΔΔΔ on December 24, 2010, and subsequently implemented the project.

① Conclusion of Agreement

The GGGI learned in about November 2010 (date unknown) that the Bill & Melinda Gates Foundation("Gates") and Mckinsey & Company Inc.("Mckinsey") had been pursuing a project related to Ethiopian irrigation facilities. The GGGI received a proposal from the Gates Foundation that it should participate in the project undertaken by Mckinsey.

According to the written proposal that the GGGI received from Mckinsey on November 27, 2010, said project was to be conducted in phase A and B (six weeks in total including three weeks for phase A and B respectively). Phase A (three weeks) would cost USD 250,000 while phase B (three weeks) would cost USD 305,000 after completion of phase A. However, the USD 250,000 budget required for phase A included tasks for phase B.

Under the circumstances, the GGGI, upon examination of said proposal, produced a business plan to the effect that both phase A and B would be completed during a six-week period at the cost of USD 250,000 (equivalent to KRW 278,500,000). It submitted the plan to its FacCom on December 4, 2010, and the plan was approved without any modification on December 9, 2010.

In the meantime, Article 12(3)1, 12(3)11, 12(4) and 21(1) of the GGGI's Articles of Incorporation, its budget and annual basic business plan should be approved by the Board of Directors or the FacCom installed in the Board of Directors.

Therefore, the GGGI has to ensure efficient execution of a budget in conducting outsourcing by scrutinizing a proposal submitted by a service provider, the scope of service, rationale for computation, etc. In addition, it should push for a project with approval from the FacCom, etc. and obtain approval again in the event of any modification.

On December 23, 2010, the GGGI received a draft contract from Mckinsey stating that phase A (three weeks) of the project above would be performed at the cost of USD 250,000. Thus, it requested its legal advisor (Chan Ho PARK associated with the Korea Legislation Research Institute) to review the details of the contract.

The legal advisor named Chan Ho PARK opined that it was unclear whether the consideration for service (USD 250,000) as specified in the proposal originally submitted by Mckinsey is for phase A only or for both phases A and B. He also said that the FacCom had approved a plan to conduct phase A and B (six weeks) at the cost of USD 250,000. Noting that the draft contract stated that only phase A (three weeks) would be performed at the cost of USD 250,000, he said that consideration of USD 250,000 is excessive for three weeks of service. Thus, he suggested that the contractual period be prolonged to four months and that both phase A and B be performed at the cost of USD 555,000. He went on to say that such change would require re-approval by the FacCom.

However, the GGGI prolonged the contractual period to four months on December 24, 2010 without obtaining the FacCom’s approval of such modification. With the contractual amount increased by USD 305,000, the GGGI concluded a USD 555,000 optional agreement with Mckinsey.

Said agreement on research service provides that the final payment shall be made in two months after launch of the project and that the actual period of service shall be six weeks. This indicates that the contractual period was nominally prolonged to four months.

② Management of Research Service

In addition, said agreement on research service stipulates that interim, final, and financial statements should be submitted by set deadlines to attain the goal of the project and that payments should be made accordingly.

Therefore, the GGGI should have thoroughly managed the research service so that it could be performed smoothly as provided in the agreement, ensuring timely utilization of service results.

Mckinsey, the counterparty to the agreement, did not request payment of a deposit upon commencement of the agreement unlike the details of the agreement. Besides, it failed to submit an interim statement by January 10, 2011, a set deadline. However, the GGGI did not take any actions to ascertain progress in service including confirming whether Mckinsey had begun to perform the agreement or identifying the reason for its failure to submit an interim statement.

After Mckinsey submitted a final statement on March 4, 2011, the GGGI requested that the statement be modified and complemented four times as specified in Table 8 on grounds that its content was not satisfactory. However, Mckinsey failed to appropriately modify and supplement the statement. As a result, a final statement had yet to be produced and published as of September 17, 2012, the commencement date of this audit.

[Table 8] Developments Concerning Mckinsey's Submission of Research Service Statements and Their Modification/Supplementation

Date	Description		Officer in Charge
March 4, 2011	Mckinsey	· Submission of the 1st final statement; invoice for down payment (in full)	-
March 15, 2011	GGGI	· Request for submission of an interim statement, financial statement, etc.	Dr. Okju JEONG

March 25, 2011	GGGI	· Request to modify and supplement the 1st final statement	
June 10, 2011	Mckinsey	· Submission of the 2nd final statement	-
August 3, 2011	GGGI	· Request to modify and supplement the 2nd final statement	Dr. Okju JEONG
September 7, 2011	Mckinsey	· Submission of the 3rd final statement	-
September 27, 2011	GGGI	· Request to modify and supplement the 3rd final statement	Tae Yong JUNG, former vice executive director
About October 2011	Mckinsey	· Submission of the 4th final statement	-
About April 2012	GGGI	· Request to modify and supplement the 4th final statement	Dr. Seong Cheol KANG
	Mckinsey	· Submission of the 5th final statement	-

Source: Recompilation of submitted materials including four GGGI employees' confirmation letters and e-mails

As shown above, the GGGI failed to manage a research service project appropriately. This prompted the project to pass its contractual deadline for eighteen months. Thus, the GGGI could not utilize its project outcomes in a timely manner, which attests to its failure to efficiently apply a budget.

Action to Be Taken: The chairman of the Global Green Growth Institute (GGGI) is advised to thoroughly review research service proposals and agreements and not to increase a contractual amount without obtaining approval by the FacCom. In addition, the chairman is requested to completely examine the final statement concerning the Ethiopia Household Irrigation Technologies research service and settle related expenses. **[Admonition]**

The Minister of Environment is advised to urge caution to personnel who were negligent in performing duties concerning contract conclusion in connection with pursuit of said project. **[Admonition]**

The presidential chief of staff is advised to urge caution to personnel who were negligent in performing duties concerning coordination in connection with pursuit of said project. **[Admonition]**

3 Unreasonable Conclusion and Management of Agreement Concerning Research Service for Formulation of Low-Carbon Development Plan in Shandong Province

On December 30, 2010, the GGGI concluded an agreement on "research service for formulation of a low-carbon development plan for Shandong Province, China" (amount: USD 500,000 equivalent to KRW 557,000,000, period: December 31, 2010 to September 30, 2011) with □□ University in China. The service was completed on March 22, 2012.

On November 10, 2010, the GGGI held the fourth meeting of its Board of Directors and decided to pursue said outsourcing project by receiving an invitation letter from Shandong Province and to convert it into an R&D program in the event of a failure to receive such letter. As receipt of an invitation letter from Shandong Province was delayed, the GGGI summoned the FacCom on December 4, 2010 and decided to change said project into an R&D program on the premise that it obtained a promise by an officer at the level of the Governor of Shandong Province.

As specified above, said outsourcing project is to draw up a low-carbon development plan for Shandong Province. Since smooth implementation of the project required cooperation and support by Shandong Province, the GGGI should have pressed for the project after obtaining a promise from Shandong Province and then determining the purpose and details of the project, scope of service, contractual amount and period, etc.

Without securing a promise from Shandong Province, i.e. a precondition for pursuit of said outsourcing project, the GGGI converted the project into an R&D program on December 30, 2010 and pushed for the program. On January 10, 2011, it paid USD 150,000 (equivalent to KRW 167,100,000) as a deposit.

In the meantime, Tsinghua University continuously sought to conclude an agreement with Shandong Province from about March 2010 (accurate date unknown) to collect basic materials and garner support necessary for performance of said outsourcing project. However, it failed to reach an agreement.

Against this backdrop, the GGGI decided to merely receive a technical report not reflecting actual research and analysis findings on Shandong Province based on consultation with Tsinghua University, instead of a research deliverable concerning formulation of a low-carbon development plan for Shandong Province, which is the original purpose of the project. On November 11, 2011, the GGGI received said technical report from Tsinghua University. On November 18, 2011, the GGGI held a meeting of its Management Committee and decided to put the project to an end and to make an interim payment of USD 150,000 additionally. On January 17, 2012, the GGGI paid USD 150,000 to Tsinghua University without receiving a financial statement, which was contractually required and necessary for settlement of project costs.

As explained above, said outsourcing project was concluded even without settlement of project costs concerning the amount already disbursed. In addition, the technical report that the GGGI received from Tsinghua University, the counterparty to the agreement, on November 11, 2011 remains unutilized as of September 17, 2012, over ten months after its submission. This implies that its budget has not been efficiently executed.

Action to Be Taken: The chairman of the Global Green Growth Institute (GGGI) should not pursue outsourcing when a prerequisite for outsourcing such as a promise by the agency concerned has not been met. **[Admonition]**

4 Unreasonable Conclusion and Management of Agreement Concerning Dispatch of Samjong KPMG Experts

On September 6, 2011, the GGGI concluded agreements (amount: KRW 55 million per person (two persons) and KRW 87 million per person (one person), KRW 197 million in total) to the effect that Samjong KPMG Advisory Inc. (hereinafter referred to as "Samjong") should dispatch three experts for 26 weeks from September 15, 2011 to February 15, 2012 for benchmarking and research pertaining to "response to climate change issues" and "promotion of recyclable energy" in Cambodia, the UAE, etc.

① Conclusion of Agreement on Dispatch of Experts

Paragraphs 1 and 3 of Chapter I and Paragraph 6 of Chapter IV of the GGGI Procurement Regulation (March 31, 2011) provides that open competition is required in principle when concluding a contract to ensure transparency and openness of the related procedures. However, conclusion of an optional agreement is permitted in certain cases such as when the amount of contractual service is no more than USD 100,000.

Paragraph 5 of Chapter III of said Regulation stipulates that for conclusion of a consulting agreement, three to six qualified and experienced consulting companies shall be selected as final candidates after a public announcement. In accordance with such Regulation, the GGGI should undergo a transparent contract conclusion process.

Concerning dispatch of three experts for which the GGGI concluded agreements on September 6, 2011, the contractual date, dispatching company, time, and period of dispatch, etc. were the same. Furthermore, the areas of research were similar to each other and the combined contractual amount was KRW 197 million. Therefore, it was reasonable to conclude such agreements by means of open competition in accordance with said Regulation. However, the GGGI entered into separate optional agreements.

② Agreements on Dispatch of Experts and Their Follow-Up Management

Paragraph 15 of Chapter II of said Procurement Regulation provides that in concluding an agreement, it is necessary to clearly define the scope of service to be performed, goods to be supplied, rights and obligations of a supplier or contractor, final deliverables, and annexed documents including financial statements and evidentiary payment documents. Paragraphs 1 and 3 of Chapter III of the same Regulation stipulates that in employing a consultant to receive consulting service and professional advice, the GGGI should ensure clear, high-quality deliverables. In addition, estimation of consulting costs should be based on resources required for task execution including time input, etc.

In the meantime, two experts (A and B) dispatched according to their respective agreements are participants in the "Kazakhstan national green growth plan" for which the GGGI concluded a service agreement with Seung Hyun KIM and Oksu LEE (amount: 490,000 euro equivalent to KRW 7 million). The term of said service agreement is from September 15, 2011 to 2012. 9. 14, which overlaps with the period of said dispatch agreements (September 15, 2011 to February 15, 2012).

Accordingly, the GGGI should have entered into dispatch agreements after clarifying the ratio of performance of duties, time input, etc. of said two dispatched experts irrespective of whether their participation in said research service is excluded or acknowledged. With respect to dispatched experts, the

GGGI should have formulated a reasonable management plan, clearly specifying services to be performed or deliverables to be produced.

When it concluded said agreements on dispatch of experts on September 6, 2011, the GGGI did not clarify the ratio of performance of duties, time input, etc., nor formulated a reasonable management plan. Thus, said experts reported for duty at the GGGI only for about three days a week during the 26-week period from September 15, 2011 to February 15, 2012 to attend internal meetings and collect necessary materials (they worked for their own company for the remaining period). They failed to produce clear and separate research deliverables.

Concerning this situation, the GGGI suggested that they had prepared materials necessary for GGGI-Cambodia advisory meetings held in December 2011 and March 2012, presenting them as deliverables of expert research activities. However, they were prepared not by the experts, but by each organization on specific subjects. Other materials submitted by the GGGI can hardly be deemed concrete research deliverables reflecting their professional ability.

Considering this situation across the board, it is believed that the GGGI failed to serve the original purpose of the project, i.e. obtaining high-level research deliverables by utilizing dispatched experts.

Action to Be Taken: The chairman of the Global Green Growth Institute (GGGI) is advised not to conclude separate optional agreements when it enters into agreements on dispatch of experts with a similar purpose with the same company. In addition, the chairman is urged to ensure that dispatch of experts will translate into clear deliverables and to thoroughly conclude and manage agreements on dispatch of experts by producing a clear budget based on time input, etc. when the same expert is utilized for overlapping projects in order to prevent any budget waste. **[Admonition]**

5 Improper Outsourcing of Research on Planning for Low-Carbon Green Growth and Development of Brazil and Two Other Countries

September 28, 2010, the GGGI outsourced a research project to the United States' Climate Works Foundation (hereinafter referred to as "CW") in order to devise a plan for the low-carbon growth and development of Brazil, Ethiopia, and Indonesia (hereinafter referred to as the "Development Plan") [amount: USD 4,250,000 (or KRW 4.7 billion); period: June 2010 (no date is indicated in the agreement) – December 31, 2010] (hereafter in this translation of this section often referred to as the "Research (Service)", "Outsourcing," and "Project" respectively), and it received a financial report from CW thereon on February 15, 2011.

As a nonprofit foundation that is registered with the Ministry of Foreign Affairs and Trade and of which operation is funded by the government in the form of contributions from the Korea International Cooperation Agency (KOICA), the GGGI should formulate rules on agreements including the details of the tasks, budget calculations and adjustments, execution periods, late charges, and the like when pursuing an outsourcing project; comply with the rules; and ensure the fair and transparent execution of the budget, but it failed to do so.

When the GGGI pursues a service outsourcing agreement, it should clearly indicate when to commence the project and obtain signatures of the people with appropriate authority after all the prerequisites for the performance of the service are ready. The GGGI also needs to enter into an agreement in a manner that ensures the responsible execution of the budget by receiving the grounds for cost calculations and, when the project ends, documentary evidence to ensure an accurate settlement.

However, when the GGGI pursued a service outsourcing agreement on the Three Country Development Plan with CW (hereafter in this translation of this section often referred to as the "Agreement") on September 28, 2010, it did not indicate the date when the project would begin. That is, it indicated the date of commencement of the project as June 2010, which is about three months earlier than the date of agreement (September 28, 2010), as seen in 3. Period and Completion of Attached Table 4. Main Points of the Agreement Between the GGGI and CW.

In addition, the GGGI commenced the outsourcing by paying USD 1,275,000 in front money on October 11, 2010 and USD 1,275,000 on January 10, 2011, though the Agreement had not been signed because Brazil had not placed a formal request for the Project, which was one of the prerequisites for undertaking the Three Country Project (see 13. Appendix of Attached Table 4), and thus the Agreement had yet to be effectively established and taken effect.

According to the detailed calculation of the total price of the Agreement, CW (which is a party to the Agreement) was the manager of the Research Service, and the management cost was USD 250,000, while △△△ was the actual entity that conducted the Research, and the total cost of the Research was USD 4,000,000. As seen in [Table 9] below, USD 3,180,290 is assigned for consulting the three countries and USD 819,710 is earmarked for incidentals (business trips, lodging, meals, equipment, communication, and the like).

[Table 9] The Budget for Mckinsey of the Outsourcing

(Unit: USD)

Classification	Subtotal	Consulting service	Incidentals
Total	4,000,000	3,180,290	819,710
Brazil	1,600,000	1,340,980	259,020
Ethiopia	1,100,000	814,310	285,690
Indonesia	1,300,000	1,025,000	275,000

Source: Recompilation of materials submitted by the GGGI, etc.

However, the GGGI did not receive specific calculation grounds for the costs required for CW to manage the Project and for Mckinsey to conduct the Research including the scope of the research and the number of consultants and their input time. The GGGI asked CW to submit a financial report and additional materials for external audit, if necessary (see 2. Reports of Attached Table 4), whereas it made it impossible to ask Mckinsey (which is the actual service provider) to submit any evidence for the labor cost for consultants, all sorts of expenses, and the like (see 13. ANNEX B of Attached Table 4), thereby making it impossible to check, at the time of settlement, whether or not the budget has properly been executed.

In regard to the foregoing, CW submitted a financial report on February 15, 2011, when it asked for the payment of the balance (hereafter in this translation of this section, the Financial Report). In the Financial Report and the details of payment, the total amount of the consulting cost (USD 3,180,290) that CW paid to the representative of Mckinsey is indicated without any mention of how much had been paid to whom for labor. Concerning the incidental expenses of USD 819,710, a list was attached, but there was no indication of evidence. Thus, there is no way to know whether or not the funds had really been spent for the performance of the Research. Moreover, the cost of the management of the Project by CW (USD 250,000) included expenses that are not related to the Research Service, prompting the GGGI to cut USD 220,756.

As explained above, the GGGI pursued a research outsourcing project when the prerequisites for the performance of the research service were not ready and without ensuring the responsible execution of expenses, as a result causing opaque execution of a research service budget.

Action to Be Taken: In entering into a research service agreement in order to devise plans for the green growth of developing countries, **the chairman of the Global Green Growth Institute (GGGI)** is advised to ensure that the prerequisites (e.g., formal business requests from the countries concerned) are ready; that a review of whether or not the grounds for the calculation of the price of the agreement are appropriate is conducted in order to facilitate the transparent settlement of expenses; and that the process undergoes appropriate procedures (e.g., signing by the people in authority) for flawless conclusion and management of research service agreements. **[Admonition]**

3	Execution of Other Expenses and Coaching and Supervision

[Problem]

The inefficient execution of other expenses including expenses for the office as well as the ineffective internal control system and coaching and supervision were pointed out as problems.

1 Improper Execution of Expenses for the Office and Improper Management of Agreements

The GGGI received more than KRW 5,363 million to cover expenses of its founding from the reserved fund of the Ministry of Foreign Affairs and Trade for the fiscal year 2010 and executed more than KRW 5,531 million, mostly for rent and to ready the office (in terms of encumbrances and including the money that was not executed in 2010).

① Execution of Expenses (Including Expenses to Ready the Office)

With regard to this matter, the taskforce that prepared for the founding of the GGGI (hereafter in this translation of this section often referred to as the

"Taskforce") planned to streamline the organization as much as possible and operate it with only 30-40 people until the end of 2012; calculated the funds required for the individual budget items (including the rent deposit) accordingly as seen in [Table 10]; earmarked KRW 5,500 million for the founding and operation of the GGGI for the fiscal year 2010; and the requested the Ministry of Foreign Affairs and Trade provide that amount.

[Table 10] <u>2010 Budget for the Founding and Operation of the GGGI—Provision and Execution</u>

[Unit: KRW 1,000, 1$=1087.00 won]

Classification		Requested	Provided (A)	Executed (B)	Difference (B-A)
Total		5,500,000	5,363,058	5,531,411	168,353
Founding	**Subtotal**	**588,170**	**536,058**	**2,254,830**	**1,718,772**
	Rent deposit for the headquarters in Seoul	300,000	300,000	501,868	201,868
	Interior of the Seoul headquarters	**170,850**	**162,308**	**1,373,955**	**1,211,647**
	Interior of the London branch	34,170	-	-	-
	Office fixtures	**37,598**	**28,198**	**299,714**	**271,516**
	Legal consulting and other	45,552	45,552	79,293	33,741
Operation	Rent deposit, labor cost, etc.	2,411,830	2,337,000	1,243,078	Δ 1,093,922

Business	Development of internal capabilities and global outreach	2,500,000	2,490,000	2,033,503	∆456,497

Source: Recompilation of materials submitted by the GGGI, etc.

On April 30, 2010, the Ministry of Foreign Affairs and Trade submitted to the Ministry of Strategy and Finance a request for the expenditure from the reserved fund in order to budget KRW 5,500 million for the founding and operation of the GGGI, but on May 18, 2010, the Ministry of Strategy and Finance cut the requested amount by KRW 136 million for the reason that excessive expenses were assigned for interior renovations and office fixtures as seen in [Table 10] and submitted a request for KRW 5,363 million to the Cabinet, which approved the request as it was.

Later, on May 27, 2010, the Ministry of Foreign Affairs and Trade notified the GGGI of the budget above and asked it to execute the budget in compliance with the plans on its use, details thereof, and the like as much as possible.

Therefore, the GGGI was supposed to execute the funds it received in compliance with their use plans, details thereof, and the like, and if it intended to use such funds for purposes other than those planned and the like, it was supposed to request the Ministry of Foreign Affairs and Trade's review and approval of the reason for the proposed use and the amount thereof.

However, the GGGI not only rented a floor area of 829.75 m^2 on the 19th floor of Jeongdong Building (hereafter in this translation of this section, the

"Building") in Jung-gu, Seoul on May 13, 2010 and paid rent of KRW 238 million (rent period: May 19, 2010 – June 18, 2012), but also rented an additional floor area of 1,000.93 m^2 on the 18^{th} floor of the Building on November 30 of the same year and paid rent of KRW 263 million (period: the same as that for the 19^{th}-floor rent), resulting in total rent of KRW 501 million, which exceeds the KRW 300 million earmarked for renting in the budget by KRW 201 million.

In addition, the GGGI executed KRW 1,373 million or so for interior renovation, which exceeds the KRW 162 million or so earmarked for interior renovation in the 2010 budget (or 8.4 times the budgeted amount); constructed an office space of 199.28 m^2 on the 19^{th} floor of the Building with a condition that the newly constructed office space would be demolished when the rent agreement expires, spending about KRW 390 million on the construction and virtually creating the 20^{th} floor of the Building; conducted a so-called "green-themed" construction, spending about KRW 420 million; and also executed an additional KRW 469 million or so for the interior renovation of the 18^{th} floor from May to November 2011.

As regards office fixtures, the GGGI executed KRW 299 million or so, exceeding the KRW 28 million or so assigned in the 2010 budget by KRW 271 million or so and continued to purchase more fixtures for the 18^{th} floor in 2011, spending KRW 217 million or so.

As explained above and as seen in [Table 10], the GGGI executed the 2010 budget for its founding and operation with variations—an insufficient execution of KRW 1,550 million or so (operation: KRW 1,093 million or so; business: KRW 456 million or so) and an excessive execution of KRW 1,718 million or so in expenses for founding, spending a total of KRW 2,254 million for founding (or KRW 2,942 million if the KRW 687 million executed in 2011 is included)—without the Ministry of Foreign Affairs and Trade's review and approval.

Meanwhile, the GGGI had a plan as of October 2012 to move its Seoul headquarters to the KDI Hongreung Research Complex in Dongdaemun-gu, Seoul by 2014. Thus, it is likely that KRW 810 million (about KRW 390 million for the office expansion construction and about KRW 420 million for the "green-themed" construction) will become a sunk cost and that additional costs will be incurred for the demolition thereof.

② Office Renovation and Purchase of Tailored Furniture

The GGGI spent KRW 2,226 million or so on four works including office interior renovation and purchased custom-made furniture from August 23, 2010 to November 2011.

In regard to the foregoing, Paragraphs 1 and 3 of Chapter I and Paragraph 6 of Chapter IV of the GGGI Procurement Regulation set forth that the process of entering into an agreement shall in principle involve open competition to ensure procedural transparency and openness, but a private contract process is allowed for a purchase agreement of which the total price does not exceed USD 50,000 and for a service outsourcing agreement of which the total price does not exceed

USD 100,000.

As seen in Paragraph ① earlier, the GGGI received KRW 5,336 million from the general reserve account of the Ministry of Foreign Affairs and Trade for its founding and operation and the like.

Thus, even though there were no internal rules on entering into agreements on construction works and the like as no procurement rules have yet to be devised, the GGGI was required to apply the corresponding rules of KOICA with appropriate modifications in dealing with agreement-related tasks such as determining the bidding method, calculating costs, and conducting inspections in order to select the contractors in a fair and transparent manner; eliminate waste factors; and ensure the efficient execution of its budgets.

However, as seen in [Table 11], when the GGGI proceeded with the four works on the office space including an interior renovation and the purchase of tailored furniture, it did not estimate expected prices, but received quotations from a single company before setting the prices and entered into each agreement orally or in writing without open competition (KRW 2,226 million or so).

[Table 11] Agreements for Office Renovation, etc. Concluded Through Non-Competitive Process

(Unit: KRW 1,000, 1$=1087.00 won)

Agreement	Contractor	Date of agreement	Price of agreement	Remarks
Total			2,226,398	
Expansion (construction)	Samhup Total Construction	Aug. 16, 2010	394,350	. Extended the period twice; increased the cost by KRW 164,010,000
Interior renovation (19th and 20th floors)	Min's Design	Aug. 23, 2010	553,852	. Received quotations from only one prospect contractor; non-competitive agreement process . KRW 34,100,000 for design and permission for the expansion work and KRW 49,500,000 for the interior renovation of the 18th floor are included. . Extended the period twice; increased the cost by KRW 87,672,000
Interior renovation (18th floor)	Dragonfly	Jan. 21, 2011	472,010	. Received quotations from only one prospect contractor; non-competitive agreement process

				. Increased the price KRW 98,560,000
"Green-themed" construction	Green Construction Technology	Sept. 20, 2010	423,500	. Received quotations from only one prospect contractor; non-competitive agreement process . Excessive appropriation (KRW 53,140,000); defects amounting to KRW 58,870,000
Purchase of tailored furniture	Hanssem Effex	-	382,686	. Received quotations from only one prospect contractor; orally requested the contractor to make furniture five times . Expensive furniture (KRW 38,260,000)

Source: Recompilation of materials submitted by the GGGI, etc.

The GGGI is supposed to pay the balance of an agreement after a pre-delivery inspection, but it paid Green Construction Technology Co., Ltd. (hereafter in this translation of this section, often referred to as the "Green Contractor") the entire amount of the agreement (KRW 423 million or so) in three installments between October 21, 2010 and February 14, 2011 without a pre-delivery inspection, even though it deemed that there were many problems. For example, the Green Contractor had proposed installing an electric blind system, which works automatically according to changes in the temperature, but the blinds did not work automatically, and the water flow and the waterproofing of the ecological pond also required testing.

In regard to the foregoing, we reviewed how the GGGI had proceeded with the aforementioned five agreements and found {1} that the GGGI purchased expensive, custom-made furniture and interior [*sic*] for KRW 37 million; and {2} that in the case of the "green-themed" construction, {i} there was an excessive appropriation of KRW 53 million, {ii} the electric blinds (KRW 67 million or so) do not automatically work according to temperature changes, contrary to what the contractor proposed, {iii} the roof-top garden and ecological pond created to render a green image (price of construction: KRW 58 million or so) have been demolished due to defects; and {iv} the hybrid streetlamps and a rainwater harvesting system are not working as of October 2012.

[Table 12] <u>Waste of Money and Defects in Purchase of Furniture and "Green-Themed" Construction</u>

(Unit: KRW 1,000, 1$=1087.00 won)

Agreement	Contractor	Price of agreement	Details of waste of money and defects
Purchase of tailor-made	Hanssem Effex	382,686	. Purchase the furniture at a high price of over KRW 37 million . We received quotations from Lavat Furniture

furniture			and more for the price of furniture of the same types and dimensions on January 14, 2011 and found Hanssem Effex price (KRW 165 million) was higher than Livart Furniture's price (KRW 149 million) by about 9.8 %, indicating that the total price would have been lower by KRW 37 million[=0.098 x KRW 382,686,000 (price paid to Hanssem Effex)] if the furniture had been purchased from Livart Furniture .
"Green-themed" construction	Green Construction Technology	423,500	• An excess of about KRW 53 million was paid . In the first sheet of quotations, the consulting fee was KRW 17 million or so. . Considering KRW 24 million was earmarked as the fee for reviewing technology /structure reinforcement and production of detailed drawings (detailed working drawing and detailed cross-sectional drawing), which constitute consulting on detailed construction including the installation of a double-skin system, the consulting fee of KRW 53 million or so, which is separately assigned, should have not been included in the total price of the agreement. • Defects . The electric blinds does not automatically work according to temperature changes . As regards the construction to render a green image (price: KRW 58 million or so), the ecological pond and the roof-top garden were

			demolished, and the hybrid streetlamps and the rainwater harvesting system do not work. . While the installation of the double-skin system (price: KRW 117 million or so) helps reduce the heating cost, but resulted in a higher cooling cost including the installation of air conditioners

Source: Recompilation of materials submitted by the GGGI, etc.

Action to Be Taken: The chairman of the Global Green Growth Institute (GGGI) is advised to conduct a thorough prior review before executing the budget differently from the original purposes; proceed with office construction, renovation, and beautification works after closely deliberating on the necessity of costs with a long-term plan; and strictly manage agreements and construction processes in order to prevent any waste of money. **[Admonition]**

2 Improper Establishment and Operation of an Internal Control System

Since its founding on May 14, 2010, the GGGI has operated an internal control system where a non-standing auditor audits the GGGI's properties and how the GGGI is managed; asks directors to submit materials or opinions required for audit; and speaks at board-of-directors meetings.

The budgets that the GGGI has executed (and is executing now) since its founding in May 2010 as a nonprofit foundation registered with the Ministry of

Foreign Affairs and Trade amount to about KRW 57.5 billion, including the funds it has received from KOICA. The GGGI had 60 employees as of the end of July 2012, but the number will increase to 168 by 2014 if it becomes an international organization.

It needs to ensure a high level of transparency and accountability befitting an international organization by establishing and operating an effective internal control system in order to prevent inefficiency in the operation of the organization and the performance of its projects.

Notwithstanding, the GGGI had not put in place any standards, guidelines, or manuals on the organization, budget and accounting, and HR. The GGGI put in place compensation (salaries, etc.) rules as late as November 10, 2010, which was followed by the promulgation of procurement rules four months later (March 31, 2011) and accounting and execution guidelines seven months later (June 17, 2011). Delegation and approval rules, HR rules, bylaws, and the like were devised and put in place only in 2012.

Furthermore, the GGGI had not hired a full-time auditor to perform routine audits in an independent position besides the one non-standing auditor for one year and 11 months since its founding on May 14, 2010 until April 30, 2012. Only as late as May 1, 2012, did it place an employee for internal audit but had him perform his job according to the executive director's instructions. As a result, he has mainly handled the management of business progress and the application and management of a new business management method, dubbed the core operating process (COP).

Consequently, no proper internal audit or routine audit has been in place since its founding on May 15, 2010 to the present (October 10, 2012).

Action to Be Taken: The chairman of the Global Green Growth Institute (GGGI) is advised to put in place an effective internal control system that can prevent the inefficient execution of budgets in organizational operation due to the reckless pursuit of projects and inefficient operation of the organization. **[Notice]**