

April 2006

UNITED NATIONS

Procurement Internal
Controls Are Weak



G A O

Accountability * Integrity * Reliability

Highlights of [GAO-06-577](#), a report to congressional committees

Why GAO Did This Study

For more than a decade, experts have called on the United Nations (UN) Secretariat to correct serious deficiencies in its procurement process. Recent evidence of corruption and mismanagement in procurement suggests that millions of dollars contributed to the UN by the United States and other member states are at risk of fraud, waste and abuse. During the last decade, UN procurement has more than tripled to more than \$1.6 billion in 2005, largely due to expanding UN peacekeeping operations. More than a third of that amount is procured by UN peacekeeping field missions.

To review the UN's internal controls over procurement, GAO assessed key control elements, including (1) the overall control environment and (2) specific control activities aimed at providing reasonable assurance that staff are complying with directives.

What GAO Recommends

GAO recommends that the State Department work with member states to encourage the UN to establish clear lines of authority, enhance training, adopt ethics guidance, establish an independent bid protest mechanism, and implement other steps to improve UN procurement. GAO provided State and the UN with an opportunity to comment on a draft of this report. State endorsed GAO's recommendations. The UN chose not to provide comments.

www.gao.gov/cgi-bin/getrpt?GAO-06-577.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Thomas Melito at (202) 512-9601 or melitot@gao.gov.

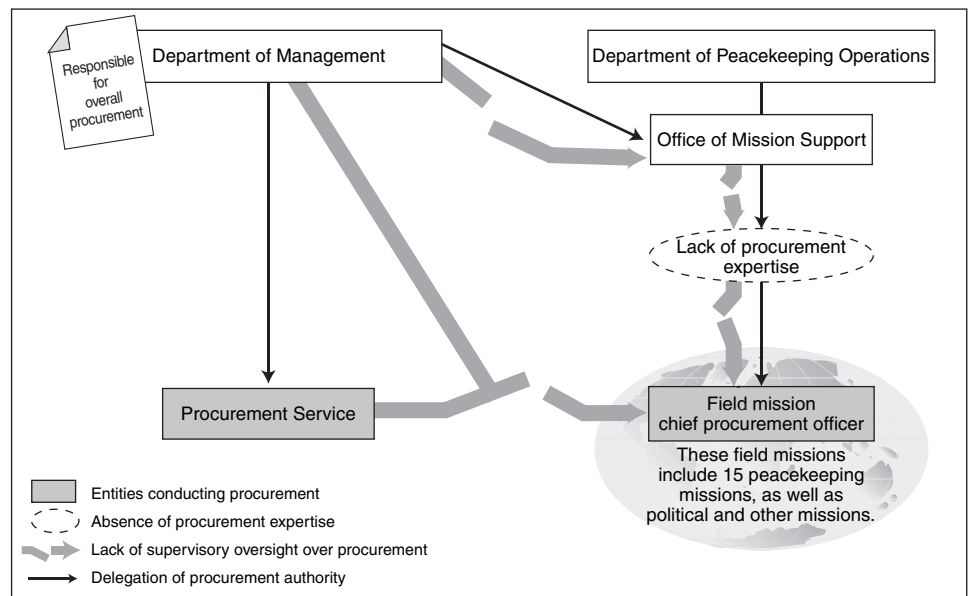
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Procurement Internal Controls Are Weak

What GAO Found

Weak internal controls over UN headquarters and peacekeeping procurement operations expose UN resources to significant risk of waste, fraud, and abuse. The UN's overall control environment for procurement is weakened by the absence of (1) an effective organizational structure, (2) a commitment to a professional workforce, and (3) specific ethics guidance for procurement staff. GAO found that leadership responsibilities for UN procurement are highly diffused. While the UN Department of Management is responsible for UN procurement, field procurement staff are instead supervised by the UN Department of Peacekeeping Operations, which currently lacks the expertise and capacities needed to manage field procurement activities. Also, the UN has not demonstrated a commitment to maintaining a qualified, professional procurement workforce. It has not established training requirements or a procurement career path. In addition, the UN has yet to establish specific ethics guidance for procurement staff in response to long-standing mandates by the UN General Assembly, despite recent findings of unethical behavior.

Diffusion of Leadership Responsibilities for UN Procurement



Source: GAO.

GAO also found weaknesses in key control activities. For example, the UN has not addressed workload and resource problems that are impeding the ability of a key committee to review high-value contracts. Also, the UN has yet to establish an independent process to review vendor complaints, despite long-standing recommendations that it do so. In addition, the UN has not updated its procurement manual since 2004. As a result of these and other weaknesses, many millions of dollars in U.S. and other member state contributions could be vulnerable to fraud, waste, and abuse.

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Abbreviations

JIU	Joint Inspection Unit
OIOS	Office of Internal Oversight Services
UN	United Nations

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United States Government Accountability Office
Washington, D.C. 20548

April 25, 2006

The Honorable Norm Coleman
Chairman
The Honorable Carl Levin
Ranking Minority Member
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Henry J. Hyde
Chairman
The Honorable Tom Lantos
Ranking Minority Member
Committee on International Relations
House of Representatives

The United Nations (UN) Secretariat procured more than \$1.6 billion in goods and services in 2005, primarily to support a peacekeeping program that has more than quadrupled in size since 1999.¹ For more than a decade, experts have called on the UN to correct serious deficiencies in its procurement process. However, audits and investigations continue to uncover evidence of corruption and mismanagement in the UN's procurement activities. For example, in 2005, a former UN procurement officer pled guilty to charges of accepting money from vendors seeking contracts. In 2006, the UN placed eight officials on administrative leave pending the outcome of an ongoing investigation involving procurement activities. Four of the officials were in the Department of Management, which is responsible for all UN procurement functions—including establishing procurement policies through its UN Procurement Service and approving high-value contracts. The remaining four staff were from the Department of Peacekeeping Operations. Procurement staff in field peacekeeping missions procure goods and services amounting to more than one-third of all UN procurement.

¹This report focuses solely on the procurement activities of the UN Secretariat. It does not address the procurement activities of other UN entities, funds, and programs, such as the World Food Program or the UN Development Program. For the purposes of this report, the term "UN" refers to the UN Secretariat.

UN procurement occurs in a highly decentralized organizational structure, widely dispersed geographic setting, and conflict situations. These conditions underscore the need for effective internal controls to help provide reasonable assurance against fraud, waste, mismanagement, and abuse. Internal controls serve as the first line of defense in safeguarding assets and preventing fraud. The United States is the largest financial contributor to the UN and has a strong interest in helping to ensure that the UN exercises sound internal controls over its resources. In addition, the United States, through the Department of State, takes measures to advance reform of UN management processes.

In this report, we assess the UN's procurement process according to the five key standards for internal control.² First, we assessed the control environment over procurement by examining the organizational structure for managing procurement, elements required for a professional procurement workforce, and ethics guidance for procurement staff. Second, we assessed several UN control activities, including its process for reviewing contracts; mechanisms for considering vendor protests; processes for updating the procurement manual; and procedures for maintaining vendor rosters. Third, we determined the extent to which the UN examines the risks regarding its procurement activities. Fourth, we reviewed the UN's measures for recording procurement information and communicating it to management. Fifth, we examined the UN's mechanisms for monitoring management oversight of procurement activity and closing audit recommendations. In addition, we examined the U.S. government's efforts to support reform of UN procurement.

To assess internal controls in the UN procurement process, we used a framework that is widely accepted in the international audit community and has been adopted by leading accountability organizations, including the International Organization of Supreme Audit Institutions, the U.S. Office of Management and Budget, and GAO.³ We also reviewed reports issued by the UN's internal oversight unit, the Office of Internal Oversight Services; and by its external auditors, the Board of Auditors and the Joint Inspection Unit. We also analyzed reports prepared for the UN in 2005 by

²GAO, *Internal Control: Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

³Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework* (September 1992).

consulting firms⁴ and reviewed documents and data provided by the UN Procurement Service and the Department of Peacekeeping Operations (Peacekeeping Department) and by the U.S. Department of State. We interviewed UN and Department of State officials in New York and conducted structured interviews with the principal procurement officers at each of 19 missions.⁵ To determine the implementation rate of the internal oversight unit's recommendations, we discussed the data collection procedures with relevant officials and performed basic reliability checks. We determined that the recommendations data used were sufficiently reliable for the purposes of this report.

We performed our work from April 2005 through March 2006 in accordance with generally accepted government auditing standards. Appendix I provides detailed information on our scope and methodology.

Results in Brief

UN resources are unnecessarily vulnerable to mismanagement, fraud, waste, and abuse because the UN (1) lacks an effective organizational structure for managing procurement; (2) has not demonstrated a commitment to maintaining a professional, trained procurement workforce; and (3) has failed to adopt the full range of ethics guidance for procurement officials. First, the UN has not established a single organizational entity or mechanism capable of comprehensively managing procurement. This condition may have hampered efforts to correct long-standing procurement weaknesses. Second, the UN has not demonstrated a commitment to improving the professionalism of its procurement staff in the form of training, a career development path, or other key human capital practices critical to attracting, developing, and retaining a qualified professional workforce. For example, the UN has not established training requirements for its procurement staff. We also found that 16 of 19 field procurement chiefs did not possess a professional certification of their procurement qualifications. Because significant control weaknesses have led the UN to rely disproportionately on the actions of its staff to safeguard its resources, the UN's commitment to providing a professional, trained

⁴For example, Deloitte, *Assessment of Internal Controls in the United Nations Secretariat Procurement Operations-Final Report* (Nov. 30, 2005).

⁵The 19 missions we contacted are identified in figure 5, in appendix 1. They consist of all 15 of the UN's current peacekeeping operations, one logistics base, and three other missions administratively supported by the Peacekeeping Department.

procurement workforce is particularly critical. Third, the UN has failed to adopt a full range of ethics guidance for procurement officials despite directives from the General Assembly in 1998 and 2005. Since the control environment provides the structure and climate for the quality of internal controls of an organization, failure to address these weaknesses undermines other UN efforts for taking corrective action to improve its procurement process.

We also found weaknesses in key procurement control activities that are intended to provide reasonable assurance that management's directives are followed. These activities include processes for (1) reviewing high-value procurement contracts; (2) considering vendor protests; (3) updating the procurement manual; and (4) maintaining qualified vendor rosters.

- We found that, although UN procurement tripled over the past 7 years, the size of the UN's principal contract review committee and its support staff remained relatively stable. In 2005, the Headquarters Committee on Contracts reviewed contracts valued at \$3 billion (including long-term contracts) and committee members stated that they do not have resources to keep pace with the current workload. In addition, UN auditors have concluded that the committee cannot properly review contract proposals. Without an effective contract review process, the UN cannot provide reasonable assurance that high-dollar value contracts are undertaken in accordance with the Financial Regulations and Rules of the UN.
- The UN has not established an independent process to consider vendor protests despite a 1994 recommendation by a high-level panel of international procurement experts to do so as soon as possible. Without such a process, the UN may not be able to provide reasonable assurance of the fair treatment of vendors. In addition, senior UN management may not be alerted to procurement staff's failure to comply with procurement regulations.
- The UN has not updated its procurement manual since 2004 to reflect current UN procurement policy. For example, the manual does not reflect a June 2005 delegation of procurement authority that allows peacekeeping missions to purchase up to \$1 million in certain goods or services without obtaining the prior approval of the Department of Management and the Headquarters Committee on Contracts. All 19 Peacekeeping Department field procurement officials informed us that they have access to the manual at their mission, and all are somewhat to

very familiar with it. In a highly decentralized organization with geographically dispersed field missions, it is essential that staff have access to the most current procurement policy so that they can be informed of and consistently comply with UN regulations.

- The UN does not consistently implement its process for helping to ensure that it is conducting business with qualified vendors. As a result, the UN may be vulnerable to favoring certain vendors and awarding contracts to vendors that are unqualified. For example, according to UN auditors, one vendor appears to have been awarded approximately \$36 million in contracts without completing the vendor registration process.

The UN lacks a risk assessment framework for identifying and managing the procurement activities that are most vulnerable to mismanagement, fraud, waste, and abuse. UN procurement officials and auditors have identified significant risks associated with headquarters and peacekeeping procurement operations, such as start-up peacekeeping missions that operate under tight time frames in logistically complex environments. Without a comprehensive risk assessment framework, the UN is at risk of not allocating proper attention to start-up missions or other procurement activities prone to fraud, waste, and abuse.

We found that the UN lacks an integrated information management system, which adversely affects its ability to oversee field and headquarters procurement operations. We also found that the Peacekeeping Department has established only limited reporting requirements for field missions. A wider range of management reports, if used, would serve to alert management of procurement actions requiring additional monitoring. For example, a report of cumulative awards to vendors would help management identify possible instances of inadequate competition and bid rigging by vendors. Without such reporting tools or a full-time manager to review them, the likelihood that procurement mismanagement, fraud, and abuse go undetected is increased.

UN procurement officials lack internal mechanisms for monitoring procurement activity in headquarters and the field. For example, we found that chief procurement officers in the field did not have a systematic, standardized approach for determining whether procurement under their supervision is consistent with UN regulations. Instead, to monitor procurement activity, officials rely heavily on the UN oversight entities' periodic audits. Although these entities have identified numerous weaknesses in the procurement process, the UN has not always

implemented their recommendations to correct the weaknesses. In many cases, the oversight entities have found similar problems in different field missions and issued similar recommendations. Yet, UN management does not review the audit reports in a methodical manner to determine whether changes to policy or processes are warranted to address systemic problems. In addition, the UN does not have a mechanism that provides reasonable assurance that corrective actions, once taken, are institutionalized. Without effective management oversight of procurement activity, the UN is unable to identify and correct existing control weaknesses that could lead to mismanagement, fraud, waste, and abuse.

The United States has recently taken steps to advocate procurement reform as one element of overall UN management reform. The most visible of these steps was a U.S.-chaired Security Council review of the Peacekeeping Department's procurement problems in February 2006. However, the position of Ambassador for UN Management and Reform at the U.S. Mission to the UN in New York was vacant for more than 1 year. This position was recently filled in March 2006. U.S. Mission officials stated that this vacancy limited the mission's ability to influence procurement reform.

We are recommending that the Secretary of State and the Permanent Representative of the United States to the UN work with other member states to encourage the UN Secretary-General to take several steps to address these problems, including establishing clear and effective lines of authority and responsibility between headquarters and the field over UN procurement; establishing a comprehensive training program and formal career path for procurement staff; providing the Headquarters Committee on Contracts with an adequate structure and manageable workload; and establishing an independent bid protest process. We also are recommending that the Secretary of State report to the Congress annually regarding UN progress in reforming its procurement process.

The Department of State provided written comments on a draft of this report, which are reproduced in appendix III. The department stated that it welcomed our report and endorsed its recommendations. The UN did not provide us with written comments. State and UN officials provided us with a number of technical suggestions and clarifications that we have addressed as appropriate.

Background

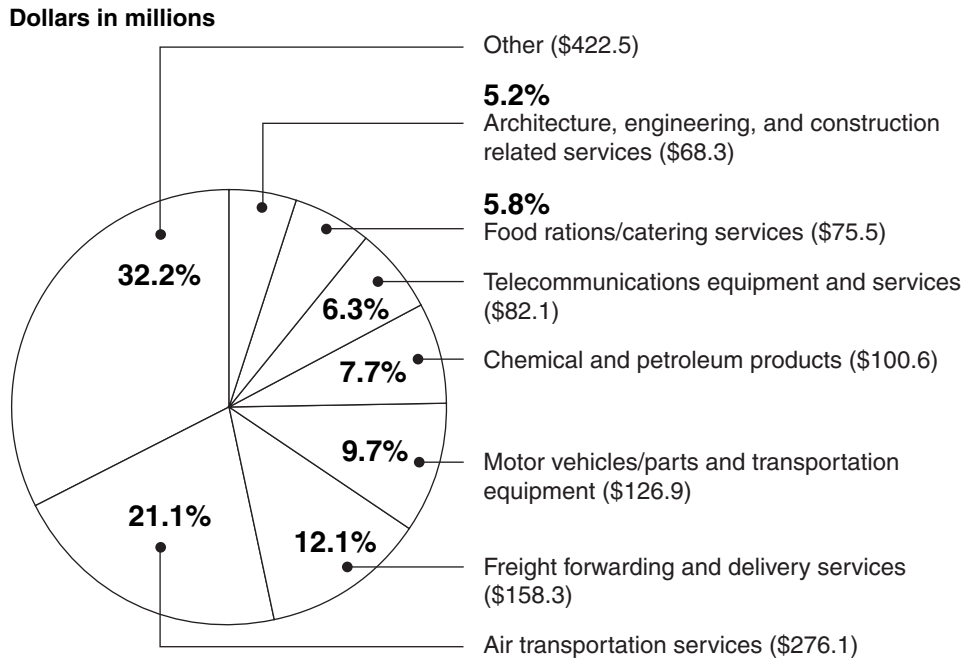
UN Secretariat procurement has tripled over the past decade, as peacekeeping operations have grown. The UN procures a variety of goods and services, including freight services, motor vehicle parts, and telecommunications equipment. UN procurement is conducted by the Department of Management and the Department of Peacekeeping Operations through its field missions. Internal controls can be used to manage an organization and to identify areas of weaknesses and strengths in the procurement process.

The UN Procures Many Goods and Services

In 2004, the UN spent a total of \$1.31 billion on procurement, with \$276 million being devoted to air transportation services alone.⁶ The UN procures a variety of goods and services, including air transportation, freight forwarding and delivery, motor vehicle parts and transportation equipment, and telecommunications equipment and services, as shown in figure 1.

⁶The UN has not yet released detailed data regarding the allocation of its 2005 procurement funds.

Figure 1: Major Commodities Purchased in 2004



Source: UN Procurement Service data for 2004.

Procurement Primarily Involves Two Departments

The Department of Management is responsible for procurement in the UN Secretariat. The department's Procurement Service develops policies and procedures for headquarters and field procurement based on the UN Financial Regulations and Rules.⁷ The Procurement Service also oversees training for all staff involved in procurement. In addition, it also provides advisory support for field purchases within the authority of field missions. The Procurement Service also negotiates, prepares, and administers contracts for goods and services for UN headquarters and certain large contracts (such as air transportation services or multi-year systems contracts) for peacekeeping missions. The UN's procurement process at headquarters involves several steps (see fig. 7, app. II).

⁷The UN Financial Regulations and Rules outline the following general principles for UN procurement: best value for money; fairness, integrity and transparency; effective international competition; and the interest of the United Nations.

The UN's field procurement process involves the Peacekeeping Department and includes additional steps (see fig. 6, app. II). Each field mission is required to establish a Local Committee on Contracts to review and recommend contract awards for approval by the chief administrative officer of the mission. The Local Committee on Contracts is composed of four members from the mission: a legal advisor, and the respective chiefs of the mission's finance, general services, and transport sections. Field missions may not award contracts worth more than \$75,000 without approval by the chief administrative officer of the mission based on the advice of the Local Committee on Contracts. In addition, field missions may not award contracts worth more than \$200,000 without approval first by the mission's chief administrative officer based on the advice of the Local Committee on Contracts and then by the Department of Management based on the advice of the Headquarters Committee on Contracts.⁸ The Headquarters Committee on Contracts evaluates the proposed contracts and advises the Department of Management as to whether the contracts are in accordance with UN Financial Regulations and Rules and other UN policies.

The Procurement Service employs about 70 individuals to procure items for the UN's headquarters operations, peacekeeping missions, international criminal tribunals, regional commissions, and upon request, other UN agencies and subsidiary organs. The Peacekeeping Department employs about 270 field procurement staff at its field missions.⁹ The members of the Headquarters Committee on Contracts are drawn from the UN Office of Central Support Services; Office of Programme Planning, Budget and Accounts; Office of Legal Affairs; and the Department of Economic and Social Affairs. The committee relies on support staff to assist it in coordinating its activities and drafting minutes detailing the results of its meetings.

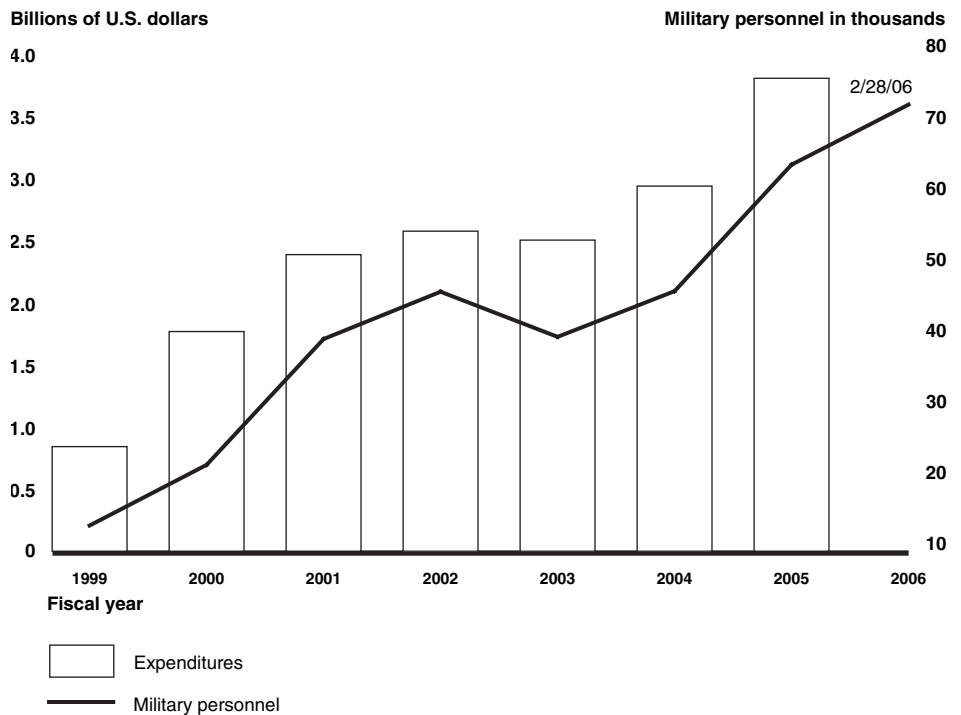
⁸Peacekeeping missions may award contracts of up to \$1 million without prior approval by the Department of Management and the Headquarters Committee on Contracts for fresh food, waste disposal services, building materials, and other defined "core requirements" that lend themselves to local procurement.

⁹As of February 2006, the Peacekeeping Department's field procurement staff consisted of 147 international staff and 120 local staff.

UN Procurement Tripled Due to Growth in Peacekeeping Operations

UN procurement has more than tripled over the past decade as UN peacekeeping operations have grown. UN procurement grew from \$430 million in 1997 to \$1.6 billion in 2005. This increase has been due primarily to a rapid increase in UN peacekeeping operations. Eight of the UN's 15 current peacekeeping missions were established in 1999 or later. Peacekeeping expenditures more than quadrupled between 1999 and 2005, as shown in figure 2. In addition, the number of military personnel in peacekeeping missions has increased fivefold, from about 14,000 in 1999 to about 73,000 as of February 2006. Although peacekeeping missions were originally conceived as short term in nature, many missions are long-standing and have continued for more than 5 years.

Figure 2: UN Peacekeeping Expenditures and Military Personnel, 1999-2005

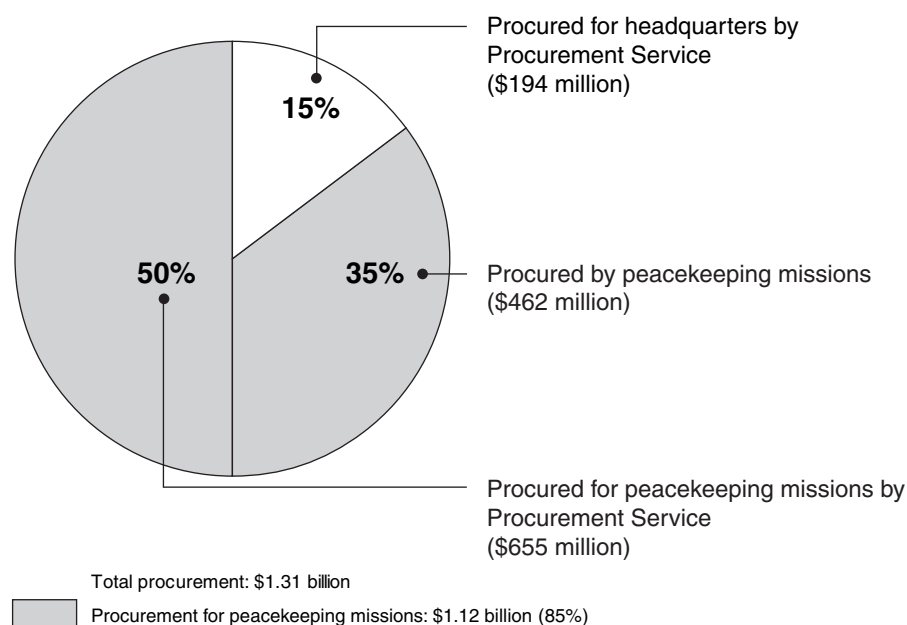


Source: GAO analysis of UN data.

Note: Military personnel includes civilian police, troops, and observers. It does not include UN civilian personnel.

As shown in figure 3, 85 percent of UN procurement in 2004 was conducted in support of peacekeeping operations. Peacekeeping field missions alone procured 35 percent of all UN procurement in 2004.

Figure 3: UN Headquarters and Peacekeeping Procurement for 2004



Source: GAO analysis of UN Procurement Service data for 2004.

Internal Control Framework Useful for Assessing Procurement Process

Internal control is an integral part of managing an organization and can be used to identify areas of weaknesses and strengths in the UN's procurement process. Internal control guidance provides a framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. There are five interrelated components of internal control: (1) control environment, (2) control activities, (3) risk assessment, (4) information and communications, and (5) monitoring.

The Control Environment over UN Procurement Is Weak

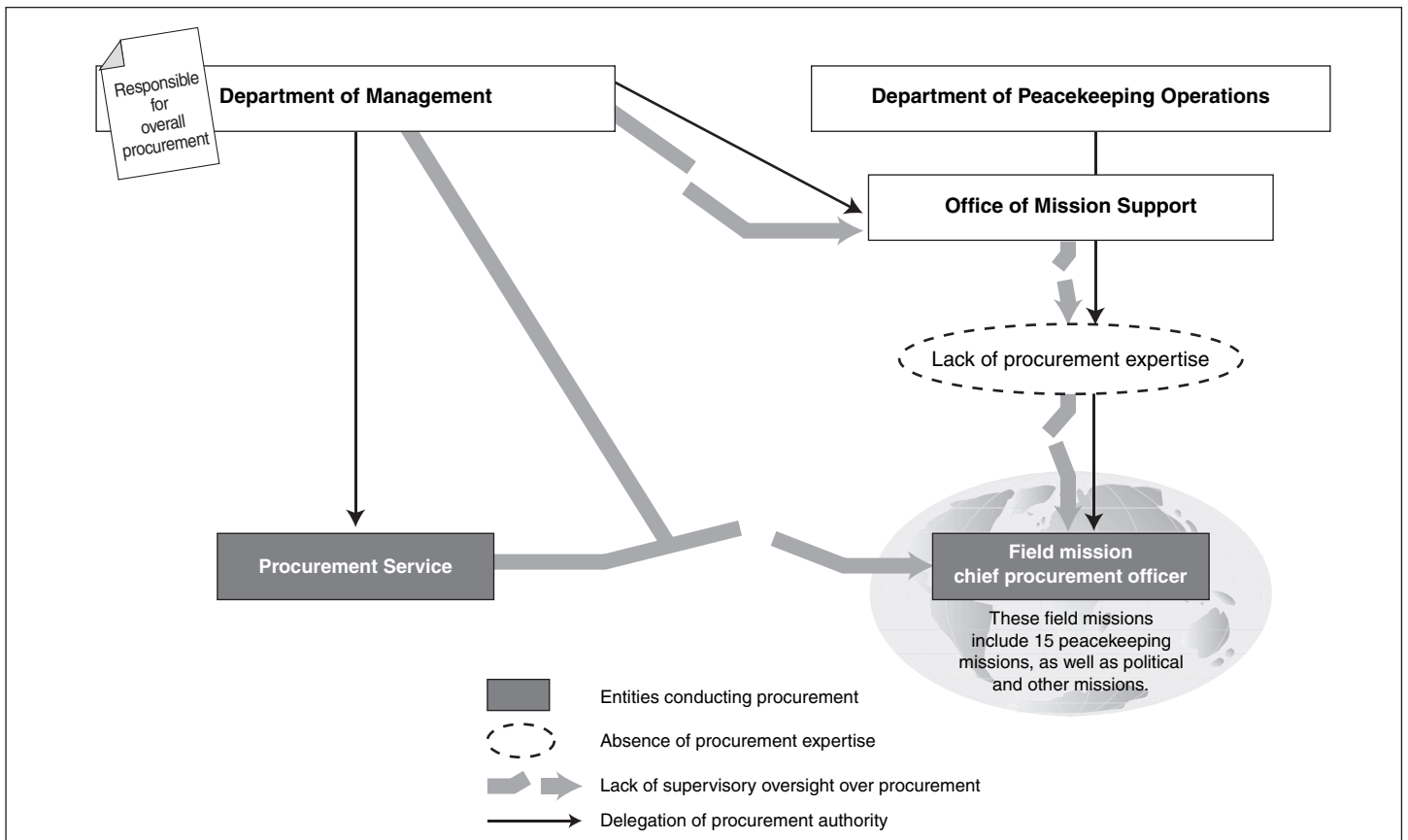
UN funds are unnecessarily vulnerable to fraud, waste, and abuse because the UN lacks an effective organizational structure for managing procurement, has not demonstrated a commitment to improving its professional procurement workforce, and has failed to adopt specific ethics guidance for procurement officials. These conditions have weakened the UN control environment for procurement.

The UN Lacks an Effective Organizational Structure for Managing Procurement

The UN has not established a single organizational entity or mechanism capable of comprehensively managing procurement. As a result, it is unclear which department is accountable for addressing problems in the UN's field procurement process. While the Department of Management is ultimately responsible for all UN procurement, neither it nor the UN Procurement Service has the organizational authority to supervise peacekeeping field procurement staff to provide reasonable assurance that they comply with UN regulations (see fig. 4).¹⁰ Procurement field staff, including the chief procurement officers, instead report to the Peacekeeping Department at headquarters through each mission's chief administrative officer. Although the Department of Management has delegated authority for procurement of goods and services to the Peacekeeping Department's Office of Mission Support at headquarters, we found that the Peacekeeping Department lacks the expertise, procedures, and capabilities needed to provide reasonable assurance that its field procurement staff are complying with UN regulations in executing this authority. The UN's Office of Internal Oversight Services (OIOS) has concluded that neither department has taken reasonable care to safeguard UN assets.

¹⁰Financial Regulations and Rules of the United Nations, ST/SGB/2003/7, Rule 105.13. According to the Financial Regulations and Rules, the under-secretary-general for management is responsible for all procurement functions of the UN and is to establish all UN procurement systems and designate the officials responsible for performing procurement functions. The Financial Regulations and Rules allow the under-secretary-general for management to authorize UN officials to act on the under-secretary-general's behalf to contract for purchases of services, products, or equipment.

Figure 4: Supervisory Oversight and Delegation of Field Procurement Authority



Source: GAO.

The UN previously considered giving the Peacekeeping Department the headquarters positions it needs to oversee field procurement activities. In 2000, a UN panel¹¹ recommended that the Department of Management transfer procurement positions to the Peacekeeping Department’s

¹¹The Panel on United Nations Peace Operations was convened by the Secretary-General of the UN to assess the UN’s ability to effectively conduct peace operations and to recommend ways to enhance that ability. The Secretary-General transmitted the panel’s findings to the UN General Assembly and Security Council on August 21, 2000, in UN document A/55/305-S2000/809.

headquarters.¹² The Department of Management subsequently drafted a delegation of procurement authority that would have required the Peacekeeping Department to provide trained procurement staff at each peacekeeping mission with procurement authority and to establish headquarters systems to administer and monitor field procurement activities. However, the Department of Management's delegation of authority did not provide for a transfer of procurement staff to the Peacekeeping Department. According to UN officials, the Peacekeeping Department rejected the proposed delegation of authority because (1) the department lacked resources to oversee field procurement activities, (2) the proposed delegation did not include a transfer of procurement staff to the Peacekeeping Department, and (3) the proposed delegation was more restrictive than previous delegations to the missions themselves.

In 2005, the Department of Management delegated procurement authority to the headquarters of the Peacekeeping Department. Although the headquarters of the Peacekeeping Department accepted the delegation, it did so without the resources needed to oversee the execution of the delegation by its field procurement activities. The Peacekeeping Department is seeking to hire an individual to manage its field procurement activities. The individual's responsibilities would include supervising field procurement activities, developing centralized procurement reporting procedures, monitoring field procurement trends, implementing improved management control tools, and working with the Department of Management to review existing procurement rules and regulations. Given the scope of these responsibilities, it is unclear how one individual would be able to fulfill the responsibilities of the proposed position. As of March 2006, Peacekeeping Department headquarters officials were interviewing candidates for this position.

While the Peacekeeping Department field procurement staff may seek guidance on UN procurement policies from the Procurement Service, we found that they do so infrequently. Of the 19 field procurement chiefs or acting chiefs that we spoke with, 12 stated that they contacted Procurement Service staff as often as once a month or once a quarter. Four others stated that they contacted the Procurement Service once or twice a

¹²According to UN officials, prior to 2005 the Department of Management delegated procurement authority directly to the Peacekeeping Department's field missions and not to the Peacekeeping Department's headquarters.

year, and three others stated that they had never contacted the Procurement Service for guidance during the past year.

The lack of more frequent contact between the Procurement Service and Peacekeeping Department field staff is significant because field staff face the challenge of complying with the procurement policies established by the Procurement Service while securing needed goods and services under often difficult conditions to meet peacekeeping deadlines. The Peacekeeping Department has characterized its operational needs as being too great and its human resource demands as too intense for the UN's existing procurement regulations and procedures. While most field officials that we spoke with reported that the Procurement Service had been at least somewhat helpful to them, several stated that they do not believe the Procurement Service understands the difficult field conditions in which they work.

The UN Lacks a Commitment to Improving Its Professional Procurement Workforce

The UN has not demonstrated a commitment to improving its professional procurement staff in the form of training, a career development path, and other key human capital practices critical to attracting, developing, and retaining a qualified professional workforce. Due to significant control weaknesses in the UN's procurement process, the UN has relied disproportionately on the actions of its staff to safeguard its resources. Given this reliance on staff and their substantial fiduciary responsibilities, management's commitment to maintaining a competent, ethical procurement workforce is a particularly critical element of the UN's internal control environment.

Recent studies indicate that Procurement Service staff and peacekeeping procurement staff lack knowledge of UN procurement policies. For example, a November 2005 consultant report stated that Procurement Service staff did not appear to have a clear understanding of procurement policies and procedures, resulting in inconsistent application of procurement policies.¹³ In addition, OIOS found that field procurement staff in one of the largest peacekeeping missions lack sufficient knowledge of basic procurement policies and procedures. OIOS also found that, in another mission, requisitioning units that lacked procurement authority had directly purchased \$9 million in goods and services during the start-up

¹³Deloitte, *Assessment of Internal Controls in the United Nations Secretariat Procurement Operations* (Nov. 30, 2005).

phase, violating the principle of segregation of duties between requisitioners and procurement staff.¹⁴ Moreover, most procurement staff lack professional certifications attesting to their procurement education, training, and experience. We found that 16 of 19 field procurement chiefs did not possess any professional certification of their procurement qualifications. A June 2005 consultant survey also found that only 3 of 41 Procurement Service officers and assistants had been certified by a recognized procurement certification body.

The UN has not established requirements for headquarters and peacekeeping staff to obtain continuous training, resulting in inconsistent levels of training across the procurement workforce. Most field procurement chiefs stated that the training they had received from the UN was at least generally useful to their procurement roles, but 11 of 19 field procurement chiefs stated that they had received no procurement training over the last year. While most field procurement chiefs stated that their staff are adequately trained, all of them said that their staff would benefit from additional training, citing areas such as contract drafting and management, negotiation, business writing, and bid evaluation. Recently, a UN interagency group developed common certification standards for procurement staff in all UN agencies.¹⁵ However, the decision for a UN agency to participate in the certification program is voluntary. Each UN agency would be responsible for developing its own training materials to prepare staff for certification. As of January 2006, Procurement Service officials had not yet determined whether this common UN procurement certification would be a requirement for existing staff or for hiring new staff.

Furthermore, UN officials acknowledged that the UN has not committed sufficient resources to a comprehensive training and certification program for its procurement staff. UN officials stated that Procurement Service training resources are insufficient to deliver adequate training. The Procurement Service's annual training budget was \$20,000 for

¹⁴The Peacekeeping Department indicated that expedient steps had been warranted and that appropriate action was later taken to regularize the contracts.

¹⁵The Inter-Agency Procurement Working Group is composed of procurement officials drawn from across the UN system. The group is developing a common certification program that would define a body of knowledge and competency framework for assessing procurement staff. Certification at the basic level has not yet begun, and the advanced level program has not yet been developed.

approximately 70 staff as of March 2006. Similarly, 11 of 19 peacekeeping chief procurement officers stated that their training opportunities and resources are inadequate. Some indicated that a single field individual's attendance at an annual conference of chief procurement officers consumed the mission's annual allotment for procurement training. Peacekeeping Department officials noted that the lack of resources to train field procurement officers is symptomatic of the general lack of professional development funding for all peacekeeping mission personnel.

The UN has not established a career path for professional advancement for Procurement Service and peacekeeping procurement staff.¹⁶ Career paths, if well designed by management, can actively encourage and support staff to undertake progressive training and work experiences in order to prepare them for increased levels of responsibility. A procurement career path also would serve to recognize procurement as a specialized profession in the UN. A November 2005 consultant report recommended that the Secretariat establish and define career paths for Procurement Service management and staff. In field missions, most procurement chiefs told us that the absence of a career path is detrimental to the professional caliber of procurement staff. In addition, 14 of 19 field procurement officials told us that they do not have professional development plans for all of their staff. UN auditors also have expressed concern that UN managers do not give proper care to helping ensure the qualifications and integrity of procurement staff.

Difficult staffing conditions and practices in both the Procurement Service and peacekeeping missions continue to expose the UN to significant risks. The Procurement Service reported that it lacks the staffing resources to implement recommended controls such as team-based rather than individual procurement, peer review of major bidding, and periodic rotation of staff. Peacekeeping staff said that staff turnover at the Procurement Service has also hurt the continuity of their operations. In the field, the Peacekeeping Department faces challenges in deploying qualified, experienced staff to missions, especially during the critical start-up phase. For example, OIOS noted that a staff member involved in leaking

¹⁶By contrast, other organizations have recognized the role of a career path in maintaining a qualified professional procurement workforce and preventing fraud. For example, the U.S. Department of Defense has established career paths for its procurement workforce that includes career development opportunities linked to progressive attainment of training, education, and experience. (Public Law 101-510, National Defense Authorization Act for Fiscal Year 1991, Title XII, Defense Acquisition Workforce Improvement Act, Nov. 5, 1990.)

confidential information to a UN supplier had been appointed to a post on a short-term temporary duty assignment and was later competitively selected for the post.

The Peacekeeping Department has had difficulties in retaining high-quality procurement staff for sustained periods in peacekeeping missions. For example, a peacekeeping official informed us that about 23 percent of procurement staff positions in peacekeeping missions were vacant as of December 2005. Peacekeeping officials informed us that a chronic lack of field procurement staff has helped to undermine existing control mechanisms. The peacekeeping procurement workforce is adversely affected by considerable staff turnover, especially in peacekeeping missions where UN staff must operate in demanding, unpredictable, and dangerous conditions. The current conditions of service in peacekeeping missions are not competitive with those of other UN entities or similar organizations, according to UN officials. For example, peacekeeping officials stated that peacekeeping mission staff are not able to have their families at their duty station and that the benefits and short-term nature of employment contracts for peacekeeping mission staff are disadvantageous compared with those at UN headquarters and other UN funds and programs. In March 2006, the Secretary-General issued proposals to revise the UN's human resource policies to address the unfavorable conditions of service in peacekeeping missions. However, the UN has not provided specific facts regarding the substance and time frames for these revisions, and they would require the action and support of member states of the General Assembly to implement.

The UN Has Not Fully Established Ethics Guidance for Procurement Personnel

The UN has failed to adopt the full range of ethics guidance for procurement officials despite repeated directives from the General Assembly in 1998 and 2005. Such guidance would include a declaration of ethics responsibilities for procurement staff and a code of conduct for vendors. Ethical principles are key elements of an internal control environment, and management plays an important role in providing guidance for proper behavior. Because of the fiduciary responsibilities held by procurement staff, the lack of specific ethics guidance increases the risk of fraud, waste and abuse. Earlier in 2005, a former UN procurement officer pled guilty to charges of accepting money from vendors seeking contracts.

The UN has been considering the development of specific ethics policies for procurement officers for almost a decade. For example, on September 8, 1998, the General Assembly asked the Secretary-General to prepare

additional ethics guidance for procurement officers “as a matter of priority.”¹⁷ In 2002, the Secretary-General acknowledged that separate procurement ethics guidance should be developed “pursuant to the request of the General Assembly.”¹⁸ In 2005, the General Assembly again asked the Secretary-General to issue ethical guidelines for those involved in the procurement process and called for “the early adoption of a code of conduct for vendors and a declaration of ethical responsibilities for all staff involved in the procurement process.”¹⁹

Despite other efforts to bolster ethics policies at the UN,²⁰ the UN has yet to fully enact new ethics guidance for procurement officials. As we reported in October 2005,²¹ the Procurement Service has drafted such guidance. It would include a declaration of ethics responsibilities for procurement staff and embody a code of conduct for vendors.²² It would also outline current rules and regulations relating to procurement staff and address ethics standards for procurement staff on conflict of interest and acceptance of gifts. In addition, the draft ethics guidance would outline UN rules, regulations, and procedures for suppliers of goods and services to the UN.

Since October 2005, the UN has made only limited progress toward addressing the directives of the General Assembly. UN officials stated that the UN has not established ethics guidance for procurement personnel due to resource constraints and the need for extensive consultations within the UN. In November 2005, a consultant review concluded that the Procurement Service lacked an effective and well-coordinated ethics program that makes ethics a fundamental element of the Procurement

¹⁷General Assembly Res. 52/252, UN Doc. A/RES/52/252, at para.10.

¹⁸See Secretary-General Bulletin 2002/13, UN Doc. ST/SGB/2002/13, *Status, Basic Rights and Duties of United Nations Staff Members*.

¹⁹General Assembly Res. 59/288, UN Doc. A/RES/59/288, at para. 12.

²⁰The UN has recently adopted new whistleblower protection policies and established a new ethics office for all UN staff. See General Assembly UN Doc. A/60/568. Also, 11 of 19 peacekeeping procurement chiefs in the field have acknowledged receiving some form of ethics training.

²¹GAO, *United Nations: Preliminary Observations on Internal Oversight and Procurement Practices*, GAO-06-226T (Washington, D.C.: Oct. 31, 2005).

²²According to a UN official, the UN Ethics Office has been participating in the effort, largely in an advisory role, by reviewing and commenting on the draft declaration of ethics responsibilities for procurement staff.

Service culture, including a single recognized and well-understood code of conduct governing ethics and integrity expectations and requirements for UN procurement staff. The UN has subsequently adopted new procedures that outline UN rules, regulations, and procedures for suppliers of goods and services to the UN. The UN also now requires all procurement officers to file financial disclosure statements. However, most of the other draft regulations continue to be reviewed within the UN. The UN has not set firm dates for their adoption. Department of Management officials informed us in April 2006 that rules for governing the conduct of staff engaged in procurement activities, including a declaration of ethical responsibilities, would be promulgated “shortly.”

The UN Has Weaknesses in Key Procurement Control Activities

We found weaknesses in key procurement control activities that are intended to provide reasonable assurance that management’s directives are followed. UN procurement control activities include processes for (1) reviewing high-value procurement contracts, (2) considering vendor protests, (3) updating the procurement manual, and (4) maintaining qualified vendor rosters. The persistence of weaknesses in these areas indicates that the UN does not have reasonable assurance that its staff are complying with management policies and directives.

Although UN Procurement Has Increased Sharply in Recent Years, the Size of the Headquarters Committee on Contracts and Its Staff Has Remained Relatively Stable

We found that although UN procurement has increased sharply in recent years, the size of the Headquarters Committee on Contracts and its support staff remained relatively stable. The committee’s Chairman and members stated that the committee does not have the resources to keep up with its expanding workload. The number of contracts reviewed by the committee has increased by almost 60 percent since 2003.²³ The committee members stated that the committee’s increasing workload was the result of the growth of UN peacekeeping operations, the complexity of many new contracts, and increased scrutiny of proposals in response to recent UN procurement scandals. Committee data from 2005 indicate that the average time taken to report a committee decision is within the time frames allowed by UN regulations. However, a senior committee official stated in March 2006 that this time had increased significantly in recent months due to the committee’s workload. He indicated that the average time to report a

²³In 2005, the committee reviewed 881 contracts valued at \$3 billion (including long-term contracts), while in 2003 it reviewed 558 contracts valued at about \$2.3 billion.

committee decision is now approaching 20 business days instead of 10. In addition, 8 of 19 peacekeeping field procurement officials stated that the committee only reviewed their cases in a moderately timely manner, while 5 felt that there was little to no extent of timeliness in these reviews.

Concerns regarding the committee's structure and workload have led UN auditors to conclude that the committee cannot properly review contract proposals. It may thus recommend contracts for approval that are inappropriate and have not met UN regulations. In a 2006 report, OIOS stated that the committee cannot determine if procurement officials had complied with regulations or if they had been unduly influenced by vendors. OIOS cited a report it had prepared in 2001 that concluded that the committee had not developed the tools needed to provide reasonable assurance that it could thoroughly and objectively evaluate contract proposals and add value to the procurement process. OIOS also reiterated its 2001 recommendation that the UN reduce the committee's caseload and restructure the committee "to allow competent review of the cases." Without an effective contract review process, the UN cannot provide reasonable assurance that high value contracts are undertaken in accordance with the Financial Regulations and Rules of the UN.

The UN's plans to address these issues are unclear. In January 2006, the Under-Secretary-General for Management stated that the committee should be restructured in some form in response to consultant concerns.²⁴ However, OIOS reported in January 2006 that the Department of Management had been "unresponsive" to its recommendations regarding the committee.²⁵ The committee Chairman stated that the committee's four existing posts are all in support of the regular budget, and it needs additional support for reviewing contracts under the peacekeeping budget. The Chairman told us that the committee has requested that its support staff be increased from 4 to 7, but does not yet know if this will be approved. The Chairman also stated that raising the \$200,000 threshold for contracts that require review by the committee would reduce the committee's workload.

²⁴A November 2005 study by a consultant for the UN concluded that the committee was not effective in preventing all forms of corruption and sometimes delayed procurement of items.

²⁵Office of Internal Oversight Services, *Comprehensive Management Review of the Department of Peacekeeping Operations—Procurement*, AP2005/600/20 (Jan. 20, 2006).

The UN Has Not Established an Independent Bid Protest Process

The UN has not established an independent process to consider vendor protests, despite the 1994 recommendation of a high-level panel of international procurement experts that it do so as soon as possible.²⁶ Such a process would provide reasonable assurance that vendors are treated fairly when bidding and would also help alert senior UN management to situations involving questions about UN compliance. An independent bid protest process is a widely endorsed control mechanism that permits vendors to file complaints with an office or official who is independent of the procurement process. The General Assembly endorsed independent bid protest in 1994 when it recommended for adoption by member states a model procurement law drafted by the UN Commission on International Trade Law.²⁷ Several nations, including the United States, provide vendors with an independent process to handle complaints.²⁸

At present, UN vendors cannot protest the handling of their bids to an independent official or office. The Procurement Service directs its vendors to file protests through a complaints ladder process that begins with the Procurement Service chief and moves up to his immediate supervisor. The majority of peacekeeping field procurement officers also stated that vendor protests were not reviewed by an independent body at their mission. Procurement Service and peacekeeping field staff told us that, in their opinion, there is no vendor demand for a more independent process.

The lack of an independent bid protest process, as endorsed by the General Assembly and used by the United States and other nations, limits the transparency of the UN procurement process by not providing a means for a vendor to protest the outcome of a contract decision to an independent official or office. If handled through an independent process, vendor complaints could alert senior UN officials and UN auditors to the failure of UN procurement staff to comply with stated procedures. As a result of recent findings of impropriety involving the Procurement Service, the United Nations hired a consultant to evaluate the internal controls of its

²⁶United Nations, *High Level Expert Group Procurement Study Report* (New York, December 1994).

²⁷See GA Res. 49/54, UN Doc. A/Res/49/54; UN Commission on International Trade Law (UNCITRAL), *Model Law on Procurement of Goods, Construction and Services* (1994), ch. 6.

²⁸In the United States, vendors may protest to the involved agencies, the U.S. Court of Federal Claims, or GAO. GAO receives more than 1,100 such protests annually.

procurement operations. One of the consultant's conclusions was that the UN needs to establish an independent bid protest process for suspected wrongdoing that would include an independent third-party evaluation, and arbitration, due process, and formal resolution for all reports.

The UN Has Not Updated the Procurement Manual Since 2004

The UN has not updated its procurement manual since January 2004 to reflect current UN procurement policy. As a result, UN procurement staff may not be aware of changes to UN procurement procedures that have been adopted over the past 2 years. An organization's control activities include taking action to make staff aware of its policies and procedures. The Procurement Service's procurement manual is intended to guide UN staff in their conduct of procurement actions worldwide. All 19 Peacekeeping Department field procurement officials informed us that they have access to the manual at their mission, and all are somewhat to very familiar with it.

The Procurement Service revised the manual in 2004 to address several problems. In 1999, we noted that the manual did not provide detailed discussions of procedures and policies.²⁹ As revised by the Procurement Service, the manual now has detailed step-by-step instructions on the procurement process for both field and headquarters staff, including illustrative flow charts. It also includes more guidance that addresses headquarters and field procurement concerns, such as more specific descriptions of short- and long-term acquisition planning and the evaluation of requests for proposals valued at more than \$200,000.

In a decentralized organization with geographically dispersed field missions, it is essential that staff have access to the most current procurement policy so that they can be informed of and consistently comply with UN regulations. While 16 of 19 peacekeeping procurement officers acknowledged that the Procurement Service or the Peacekeeping Department provided them with timely updates on the most current procurement policies and procedures to a great or moderate extent, the procurement manual still does not contain the latest information concerning procurement policies and procedures. For example, the manual does not reflect the June 2005 delegation of procurement authority from the Department of Management to the Peacekeeping Department. The new

²⁹GAO, *United Nations: Progress of Procurement Reforms*, GAO/NSIAD-99-71 (Washington, D.C.: Apr. 15, 1999).

delegation of authority allows peacekeeping field missions to purchase up to \$1 million in goods or services in support of their core requirements (e.g., waste disposal services, fresh food, janitorial services, and building materials) without obtaining the prior approval of the Department of Management and the Headquarters Committee on Contracts. When we spoke with peacekeeping procurement officers in the field, one officer stated that his mission staff were not using this new delegation of authority because they were not sure whether it was official UN policy. Another peacekeeping procurement officer was unclear on some of the details for implementation of the new authority.

Also missing from the procurement manual is a section regarding procurement for construction. In June 2005, a UN consultant recommended that the UN develop separate guidelines in the manual for the planning and execution of construction projects.³⁰ These guidelines could be useful in planning the UN's future renovation of its headquarters building.

A Procurement Service official who took part in the manual's 2004 revision stated that the Procurement Service had been unable to allocate the time and resources needed to update the manual since that time. In addition, in January 2006, OIOS found that changes in procurement policies were not always effectively disseminated, leading to possible inconsistency in the awarding of contracts. A UN consultant also has recommended that the Department of Management address the lack of a standard process for updating the procurement manual. Department of Management staff informed us that they plan to follow these recommendations.

UN Does Not Consistently Implement Its Process for Helping to Ensure That It Conducts Business with Qualified Vendors

The UN does not consistently implement its process for helping to ensure that it is conducting business with qualified vendors. As a result, the UN may be vulnerable to favoring certain vendors or dealing with unqualified vendors. Approved vendor rosters are an important procurement control activity for limiting procurement to vendors that meet stated standards. Vendors apply for registration to the list and are then evaluated by the agency before placement on the approved list. Effective rosters are impartial and provide sufficient control over vendor qualifications.

³⁰National Institute of Governmental Purchasing Inc., *Assessment of UNPS Procurement Processes* (Herndon, Va., June 30, 2005).

The UN has long had difficulties in maintaining effective rosters of qualified vendors. In 1994, a high-level group of international procurement experts concluded that the UN's vendor roster was outdated, inaccurate, and inconsistent across all locations. It warned that inconsistent and nonstandardized rosters could expose the procurement system to abuse and fraud. In 2003, an OIOS report found that the Procurement Service's roster contained questionable vendors. For example, one vendor appeared to have been awarded approximately \$36 million in contracts without completing its registration to the list. Another vendor appeared to not have applied for registration to the list but was nonetheless awarded a \$16.6 million contract. Although the Procurement Service corrected some of the noted weaknesses, OIOS concluded that, as of 2005, the roster was not fully reliable as a tool for identifying qualified vendors that could bid on contracts.

To address such concerns, the Procurement Service became a partner in an interagency procurement vendor roster in 2004, which was intended to serve as a single roster for potential suppliers to apply for registration with participating organizations within the UN system and to be used by peacekeeping field missions.³¹ It was seen as a common system that would allow sharing of vendor performance information within the UN.

The UN's use of the interagency procurement vendor roster, however, has not fully addressed concerns regarding UN vendor lists. OIOS found that many vendors that have applied through the interagency procurement vendor roster have not submitted additional documents requested by the Procurement Service to become accredited vendors. In addition to the audited financial statements and income tax returns that a vendor must submit to be registered in the UN interagency vendor roster, the Procurement Service also requires the vendors to submit a copy of a certificate of incorporation, copies of quality certification standards for the goods and services to be registered, and letters of reference from at least three clients to which the vendor has provided its goods or services over the past 12 months. OIOS found that, as of December 2005, about 2,800 vendor applicants had not submitted the necessary documents for the Procurement Service to review. OIOS expressed concern that the

³¹The interagency procurement vendor roster is known as the Global Marketplace. It is maintained by the UN Development Programme's Inter-Agency Procurement Services Office.

Procurement Service vendor registration procedure remains vulnerable to procurement officials who might manipulate it to favor certain vendors.

In addition, most Peacekeeping Department field procurement officials we spoke with stated that they prefer to use their own locally developed rosters instead of the interagency vendor roster because the local lists were shorter and contained more specific information regarding the goods and services available in the area near their field missions. Moreover, some field mission procurement staff also stated that they were unable to comply with Procurement Service regulations for their vendor rosters due to the lack of reliable vendor information in underdeveloped countries in which there were conflicts, as is common in peacekeeping missions. One procurement officer in the field stated that many of the local vendors could not prepare financial statements required by the Procurement Service and the interagency database because the country was just starting to recover from a war. Other field procurement officers noted that issues such as low levels of education and literacy and smaller vendors not being in a position to deliver internationally prevented vendors from registering on the interagency vendor list. OIOS reported in 2006 that peacekeeping operations were vulnerable to substantial abuse in procurement because of inadequate or irregular registration of vendors, insufficient control over vendor qualifications, and dependence on a limited number of vendors.

The UN Has Not Comprehensively Assessed Procurement Risks

The UN lacks a comprehensive risk assessment framework for identifying, evaluating and managing the procurement activities most vulnerable to fraud, waste, and abuse. UN officials and auditors have identified significant risks associated with headquarters and peacekeeping procurement operations. However, without a comprehensive risk assessment framework, the United Nations cannot have reasonable assurance that it allocates proper attention to procurement activities that could be most prone to fraud, waste, and abuse.

OIOS has repeatedly identified procurement as one of the areas in the UN with significant potential for inefficiency, corruption, fraud, waste, and abuse. For example, OIOS issued recommendations relating to collusion and conflicts of interest between UN staff and vendors, accountability for theft of UN property, and misuse of UN equipment. In addition, senior UN officials identified several major risks impacting peacekeeping procurement. First, they stated that field procurement staff currently operate under regulations that do not always reflect differences inherent in operating in field locations. According to Peacekeeping Department

officials, present UN procurement rules and processes are difficult to apply in peacekeeping missions during start-up. Second, field procurement staff work in demanding operating environments, especially during the first few months of a mission's start-up, and must expediently resolve issues such as uncertainties regarding the free movement of goods, customs clearances, and taxation. Finally, the Peacekeeping Department stated that its missions do not have enough field procurement staff willing to serve under current conditions of service. An environment laden with such considerable risks demonstrates the need for management to establish a comprehensive framework for continuously identifying, analyzing, and managing risks in procurement operations. While Peacekeeping Department officials informed us that they have developed strategies to mitigate certain risks, they acknowledged that the UN does not have a formal risk management framework.

Procurement Service officials stated that they do not systematically assess procurement risks. In addition, 13 out of 19 peacekeeping field procurement chiefs stated that they do not prepare formal or informal risk assessments for their missions. A November 2005 consultant report found that the Procurement Service does not have a formal and regular risk management process to assess compliance, evaluate risks, implement controls, and bring serious issues to the attention of management. Similarly, OIOS reported in January 2006 that UN management had failed to establish and implement a formal procurement risk management strategy. An OIOS official also identified several risk areas in the UN's procurement operations relating to individual span of control and supervision, segregation of functions, access to bids, and the use of brokers and subcontractors.

Without a risk management strategy for procurement, the UN would not be fully equipped to identify areas that would require stronger oversight. For example, start-up peacekeeping missions constitute a high-risk area because they require a significant volume of procurement activity under demanding time pressures in challenging geographic regions. Similarly, UN efforts to adjust procurement rules to suit field conditions or to reduce the caseload of the Headquarters Committee on Contracts would be hampered by the absence of a risk assessment process.

Fragmented Information Systems Impede UN Procurement

The UN lacks an integrated information management system, which adversely impacts its ability to oversee field and headquarters procurement operations. A sound internal control system requires that relevant, reliable information be recorded and communicated in a timely manner to equip management to carry out their responsibilities.

The UN is exposed to risks arising from fragmented procurement and financial systems in both headquarters and field procurement operations. We found that Procurement Service staff had limited access to data on procurement activities conducted locally in field missions. No single procurement database supports both the Procurement Service and peacekeeping missions; they utilize two separate procurement systems. As a result, no single UN entity was able to readily provide us with data on the total value of purchase orders and contract awards issued by each peacekeeping mission, including actions procured both locally and by the Procurement Service at headquarters. These issues raise concerns about the ability of headquarters managers to comprehensively oversee procurement by the various field missions. Moreover, the Peacekeeping Department has established only limited reporting requirements for field missions and lacks a full-time manager at headquarters to review the reports of all peacekeeping missions. A November 2005 consultant study also found that the fragmented information systems limit the Procurement Service's ability to generate comprehensive and timely management reports. Furthermore, the study found that the current information systems did not use fraud detection tools and exception reports. Such reports, if used, would serve to alert management of procurement actions requiring additional monitoring. For example, a report of cumulative awards to vendors would help management identify instances of inadequate competition or bid rigging by vendors.

Procurement Managers Lack Mechanisms to Monitor Procurement and Rely on Oversight Entities

Procurement officials lack a systematic and standardized approach for conducting management oversight of procurement activity. Instead, to monitor procurement activity, they rely heavily on UN oversight entities. Although these entities have identified numerous weaknesses in the procurement process, the UN has not always implemented their recommendations to correct the weaknesses. In many cases, the oversight entities found similar problems in different field missions and issued similar recommendations. Yet, UN management does not review the audit reports systematically to determine whether changes to policy or processes are warranted to address recurring problems. In addition, the UN does not

have a mechanism that provides reasonable assurance that corrective actions, once taken, are institutionalized. Further, the UN does not have an effective process for consistently holding procurement staff accountable for their actions, and it is too early to determine whether a newly established management performance board will do so.

UN Officials Lack Mechanisms for Monitoring Headquarters and Field Procurement Activity

Internal control standards state that while audits and other reviews of controls by internal and external auditors can be useful, the responsibility for establishing mechanisms to monitor and evaluate program activities rests with managers. Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, such as helping to ensure that staff follow UN procurement policies.

As noted earlier, the UN lacks an effective organizational structure for managing procurement at headquarters and in the field. In addition, UN procurement managers do not have a standardized and systematic process to monitor headquarters or field procurement during normal operations as part of their regular management duties. In 2006, OIOS reported that the UN does not have sufficient controls for providing reasonable assurance of compliance with the Financial Regulations and Rules of the UN and that important controls were lacking, existing controls were often bypassed, and senior officials did not take proper care to design controls for overseeing peacekeeping procurement operations. Senior procurement officials at headquarters stated that they rely heavily on the auditors to monitor procurement activity. Also, in 2005 a consultant reported that the Procurement Service cannot adequately monitor procurement activities due to (1) inadequate reporting of procurement activity, and (2) a lack of system support for management reporting and financial transaction information.

Field procurement managers also lack a standardized and systematic approach for monitoring procurement activity to provide reasonable assurance that the Financial Regulations and Rules of the UN are followed. Although UN chief procurement officers reported taking a variety of actions to determine whether their staff comply with the Financial Regulations and Rules of the UN, there were considerable differences in the steps reported, both in terms of what the officers were doing and the degree of their involvement. For example, while one chief procurement officer reported that he reviewed all procurement files, another stated that he did not have the time or resources to provide any oversight. Most field procurement officials told us that the local committee on contracts at their

mission is generally helpful and timely in reviewing contract proposals. However, UN auditors have found that noncompliance with the UN's Financial Regulations and Rules has resulted in financial losses to the UN. For example, in its audit of peacekeeping operations in 2004, the Board of Auditors found that one contractor was declared bankrupt in May 2002 and could not fulfill contract requirements. A performance bond for \$1.4 million should have been provided, as required by the contract, but it could not be located by UN officials. In addition, OIOS found instances where procurement staff split requisitions to come in under review thresholds; requisitioners sometimes procured items directly; vendors were not properly registered; and contracts were awarded without sufficient justification.

Also, most UN chief procurement officers report taking a variety of actions to determine whether vendors comply with the Financial Regulations and Rules of the UN; however, there were considerable differences between the steps the officers were taking and the degree of their involvement. Most chief procurement officers stated that they inform vendors of the UN regulations that need to be followed and that the regulations were also in the contracts. Some officers stated that they had an independent unit for contracts management in their mission that would monitor vendors for contract performance and hold meetings with the vendors to discuss their performance, while others said that they used vendor performance reports to monitor vendors. However, UN auditors have noted that in many instances, procurement staff did not prepare vendor performance reports. For example, in 2005, the Board of Auditors reported that for seven of a sample of nine contracts worth nearly \$163 million, no supplier evaluations could be found for \$160.7 million of those purchases.

UN Lacks Centralized Process for Addressing Oversight Recommendations

Internal controls guidance states that monitoring should provide reasonable assurance that the findings of audits and other reviews are promptly resolved. OIOS and the Board of Auditors conduct regular examinations of procurement. In many cases, the oversight entities have found similar problems and issued similar recommendations in multiple field missions. UN management, however, does not systematically review the audit reports to determine whether changes to policies or processes are warranted to address systemic problems.

OIOS conducts smaller-scope audits on specific procurement policies and procedures at one or more missions or offices. Over the past 5 years, OIOS has identified numerous weaknesses in areas such as management

accountability, planning and needs assessments, vendor qualifications and rosters, and contract reviews. OIOS's recommendations-tracking database indicates that the Procurement Service and the Peacekeeping Department have implemented about 88 percent of about 330 procurement recommendations and about 85 percent of approximately 170 critical procurement recommendations.³² However, a recent study by a UN consultant concluded that while OIOS provides spot audit coverage, OIOS has lacked the resources to provide coverage that would be sufficient to prevent breakdowns in internal controls.

The Board of Auditors serves as the UN's external auditor and is charged with auditing the UN financial statements biannually, including those of the Procurement Service. The board also audits peacekeeping field operations annually, including field procurement. According to board staff, the board devotes about half of its operations to procurement oversight, primarily peacekeeping oversight. Over the past 4 years, the board identified weaknesses concerning procurement ethics, vendor performance reports, and the absence of a comprehensive internal antifraud plan. According to some board officials, the UN could further benefit from procurement audits of system contracts, the bid-tendering process, and air operations. The board also pointed to the lack of an adequately trained and professional procurement workforce and stated that the UN should create a professional cadre of procurement officers. In addition, the board reported that the UN has not fully implemented key audit recommendations, such as having peacekeeping missions identify training needs for procurement officers and establishing a time frame for implementing ethical guidelines for procurement staff. According to board officials, based on the board's audit of peacekeeping operations for the period ended June 30, 2003, of 69 recommendations, 26 were implemented; 33 were in progress; and 10 had not yet started.

The Joint Inspection Unit (JIU) conducts UN-wide evaluations, inspections, and investigations and prepares reports and notes identifying best practices and opportunities for cost savings within the UN system. JIU has called attention to weaknesses in UN procurement training. In 2004, JIU reported that training funds for procurement staff were small relative to procurement volumes and amounted to about 0.01 percent of aggregate

³²We analyzed procurement recommendations from the Procurement Service and the Peacekeeping Department (18 missions in total) from July 2000 to June 2005; the recommendations were extracted from OIOS's recommendations-tracking database.

procurement expenditures with the majority of UN entities allocating no resources for that purpose. The UN had not fully addressed JIU's call for additional funding for procurement training and certification for procurement officers. However, JIU does not track separately and report on the implementation rate of its procurement recommendations.

In many cases, the oversight entities have found similar problems in different field missions and issued similar recommendations. Yet, UN management does not review the audit reports in a methodical manner to determine whether changes to policy or processes are warranted to address systemic problems or have a mechanism to help ensure that corrective actions, once taken, are institutionalized. According to UN officials, the UN currently does not systematically track all of the information from the oversight entities and does not perform any systematic analysis of what the three oversight entities are reporting to identify systemic weaknesses or lessons learned. The UN had begun exploring the possibility of establishing a high-level follow-up mechanism to help ensure proper and systematic implementation of oversight recommendations and share audit-related information and lessons learned, where appropriate; however, such a mechanism has yet to be implemented. At the request of the General Assembly, in 2005 the Secretary-General called for a high-level mechanism to be established to help ensure proper implementation of all oversight recommendations. As proposed, this oversight committee would (1) provide independent advice to the Secretary-General on all Secretariat activities relating to oversight and investigations, (2) advise the Secretary-General on the response of management to the recommendations made by oversight bodies and on the manner in which the implementation of those recommendations can have the greatest impact, and (3) help ensure systematic implementation of recommendations that have been approved by the General Assembly or accepted by the Secretariat. However, the UN has yet to implement such a mechanism and plans for doing so are uncertain.

UN Does Not Have an Effective Mechanism for Holding Staff Accountable

The UN does not have an effective mechanism in place for holding procurement staff accountable for their actions. Internal control standards state that management should maintain the organization's ethical tone, provide guidance for proper behavior, remove temptations for unethical behavior, and provide discipline when appropriate. OIOS recently reported that the UN's lack of enforcement of accountability and reluctance to investigate the mismanagement of resources, fraud, and abuse of delegated authority has increased the risk of corrupt practices in UN procurement. In

addition, peacekeeping officials agree that a lack of enforcement of accountability in some locations has led to a pattern of poor control over procurement practices. Both OIOS and peacekeeping officials agree that there is evidence that some senior managers in the peacekeeping and management departments may not have been reasonably diligent in discharging their duties or helping to ensure that adequate internal controls and procedures are in place to safeguard the organization's assets.

In May 2005, the Secretary-General abolished an accountability panel established in 2000 because it was ineffective and replaced it with a management performance board. This panel was to help ensure that the UN addressed findings of its oversight review bodies from a systemic perspective and to reinforce existing accountability mechanisms. It consisted of the Deputy Secretary-General, acting as the chairperson, and four members at the under-secretary-general level, appointed by the Secretary-General. The new management performance board will focus primarily on the performance and accountability of senior managers and advise the Secretary-General, according to a UN official. Chaired also by the Deputy Secretary-General, this board is intended to help ensure that the UN addresses serious managerial issues identified by its oversight bodies in a timely manner, monitors senior managers in their exercise of their authority, and reviews UN justice proceedings for management accountability purposes. The board also consists of two members at the under-secretary level and an external expert in public sector management. A UN official stated that the board has met twice as of February 2006. The board has been operational for too short a time to allow a determination of its effectiveness.

The United States Has Recently Taken Steps to Support UN Procurement Reform

The United States has recently taken steps to advocate procurement reform at the UN as part of its efforts to advance overall UN management reforms.³³ The U.S. Mission has publicly stated that accountable, cost-effective, and transparent procurement practices at the UN are vital to UN operations and are therefore an ongoing management priority. The Permanent U.S. Representative to the UN has recognized management weaknesses in the procurement area, particularly with regard to the unclear lines of authority and responsibility between the Departments of

³³The U.S. Mission to the UN has advocated management reforms aimed at achieving a more effective and accountable UN, including an adequately resourced ethics office, stronger UN auditing and oversight systems, and a new Independent Audit Advisory Committee.

Management and Peacekeeping. He has indicated that clarifying these lines of authority would need to be part of overall UN management reform. The U.S. Mission also has pressed to have peacekeeping procurement concerns brought to the attention of the Security Council, despite the objections of some other member states. As a result, a senior UN official briefed the Security Council in February 2006 on OIOS's audit of procurement practices in Security Council-mandated peacekeeping missions.

A staffing vacancy at the U.S. Mission to the UN in New York may have limited U.S. influence in encouraging and formulating proposals for procurement reform. The position of ambassador to the UN for management and reform was vacant from February 2005 until late March 2006. According to State officials, statements from ambassador-level representatives in UN bodies have more impact and influence than statements from other U.S. representatives. This key vacancy represents a missed opportunity for the United States in the formation of the UN management reform agenda agreed to at the World Summit in 2005. As a result, officials said, the U.S. Mission had limited capacity to influence reform.

Conclusions

Long-standing weaknesses in the UN's internal controls over procurement have left UN procurement funds highly vulnerable to fraud, waste, and abuse. Many of these weaknesses have been known and documented by outside experts and the UN's own auditors for more than a decade. The UN, however, has not demonstrated the sustained leadership needed to correct these weaknesses. It has instead undertaken piecemeal reforms while failing to clearly establish management accountability for correcting procurement weaknesses. The negative effects of this lack of UN leadership in procurement have been compounded by a peacekeeping program that has more than quadrupled in size since 1999 and may expand even further.

Recommendations for Executive Action

We recommend that the Secretary of State and the Permanent Representative of the United States to the UN work with other member states to encourage the Secretary-General to take the following eight actions:

- establish clear and effective lines of authority and responsibility between headquarters and the field for UN procurement;

-
- enhance the professionalism of the UN procurement workforce by establishing a comprehensive procurement training program and a formal career path;
 - provide the Headquarters Committee on Contracts with an adequate structure and manageable workload for contract review needs;
 - establish an independent bid protest process for UN vendors;
 - take action to keep the UN procurement manual complete and updated on a timely basis and complete the ethics guidance;
 - develop a consistent process for providing reasonable assurance that the UN is conducting business with only qualified vendors;
 - develop a strategic risk assessment process that provides reasonable assurance of systematic and comprehensive examination of headquarters and field procurement; and
 - standardize and strengthen monitoring of procurement activities by procurement managers, including actions aimed at helping to ensure that oversight agencies' recommendations are implemented and that officials are held accountable for their actions.

We also recommend that the Secretary of State report to the Congress annually regarding UN progress in reforming its procurement process, with particular attention to the status of UN progress in addressing the above recommendations.

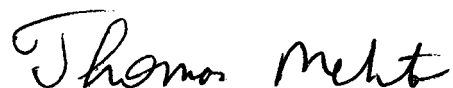
Agency Comments and Our Evaluation

The Department of State provided written comments on a draft of this report that are reproduced in appendix III. The department stated that it welcomed our report and endorsed its recommendations. The UN did not provide us with written comments. State and UN officials provided us with a number of technical suggestions and clarifications that we have addressed, as appropriate.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to other

interested Members of Congress, the Secretary of State, and the U.S. Permanent Representative to the United Nations. We will also make copies available to others upon request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9601 or melitot@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix IV.



Thomas Melito
Director, International Affairs and Trade

Scope and Methodology

To assess internal controls in the United Nations (UN) procurement process, we used a framework that is widely accepted in the international audit community and has been adopted by leading accountability organizations, including the International Organization of Supreme Audit Institutions, the U.S. Office of Management and Budget, and GAO.¹ Specifically, we assessed five key elements of internal control: (1) the control environment, (2) control activities, (3) risk assessment, (4) information and communications, and (5) monitoring.

Our review focused primarily on the Department of Management, the United Nations Procurement Service (which reports to the Department of Management), and the Department of Peacekeeping Operations (Peacekeeping Department), including 19 field missions. To assess the control environment for UN procurement, we reviewed the UN's procurement manual, organizational structure, financial regulations and rules, and information obtained from the Headquarters Committee on Contracts. We also examined training and staffing data, information on ethics guidance, and the UN Office of Internal Oversight Service's (OIOS) 2006 report on peacekeeping procurement activities.²

To assess the control activities, risk assessments, and information and communications for UN procurement, we reviewed certain policies, procedures, and mechanisms that the UN has in place to provide reasonable assurance that staff comply with directives. Specifically, we reviewed (1) the mechanism that the UN has established to review procurement contracts; (2) approaches to addressing vendor grievances, updating the procurement manual, and the maintenance of qualifying vendor rosters; and (3) approaches to assessing procurement risk to the UN, as well as the UN's information management system for procurement.

To assess procurement monitoring, we reviewed the structure and mandates of OIOS, the UN Board of Auditors, and the UN Joint Inspection Unit (JIU). We also reviewed their roles in monitoring UN procurement activities. We also reviewed the board's audited financial statements and reports for Secretariat and peacekeeping operations, which includes procurement findings and recommendations; OIOS and JIU reports

¹Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework* (September 1992).

²Office of Internal Oversight Services, *Comprehensive Management Review of the Department of Peacekeeping Operations—Procurement*, AP2005/600/20 (Jan. 20, 2006).

containing procurement findings and recommendations; annual reports of the monitoring entities covering the status of implementation of their recommendations, as well as the process they have in place to track their recommendations; resolutions and reports on the UN Secretariat Accountability Panel, the Management Performance Board, and the Oversight Committee. We discussed OIOS's process for monitoring and reporting on its recommendations with relevant officials. While the evidence these officials have obtained indicates that the data are generally reliable, the officials said they would like to perform more testing of recommendations that have been implemented but lack the resources to do so. We obtained the recommendations data set from OIOS and performed basic reliability checks. Based on our interviews and checks, we determined the data were sufficiently reliable for the purposes of this report.

In addition, to assess the control environment and other standards, we prepared an interview instrument and conducted a series of structured interviews with the principal procurement officers at each of the Peacekeeping Department's 19 missions in Africa, Asia, Europe, and the Americas (see fig. 5). We developed the interview questions based on our audit work, discussions with UN officials, and review of questionnaires conducted of headquarters staff. The structured interview instrument included open- and closed-ended questions, and covered various topics, including the background of procurement staff at each mission, such as experience, training, and certification; information on the types and volume of procurement at each mission; and questions regarding integrity, openness, competitiveness, and accountability. We conducted pretests of the instrument to provide reasonable assurance that our questions were clear and would be interpreted correctly. We addressed possible interviewer bias by ensuring that all respondents received copies of the instrument ahead of time and had them available when we conducted our interviews by telephone.

To examine U.S. government efforts to support reform of UN procurement, we reviewed position statements and various program documents. We also met with senior Department of State officials in Washington, D.C., and senior officials with the U.S. Permanent Mission to the UN in New York.

In addition, we reviewed reports prepared in 2005 by consulting firms hired by the UN to assess its procurement process.³ In addition, we reviewed reports by the Oil for Food Independent Inquiry Committee,⁴ the UN Panel on United Nations Peace Operations, and the UN High-Level Expert Procurement Group.⁵ We interviewed officials of the Department of Management, the Department of Peacekeeping Operations, the Headquarters Committee on Contracts, the UN Procurement Service, OIOS, and the Board of Auditors in New York.

We performed our work from April 2005 through March 2006 in accordance with generally accepted government auditing standards.

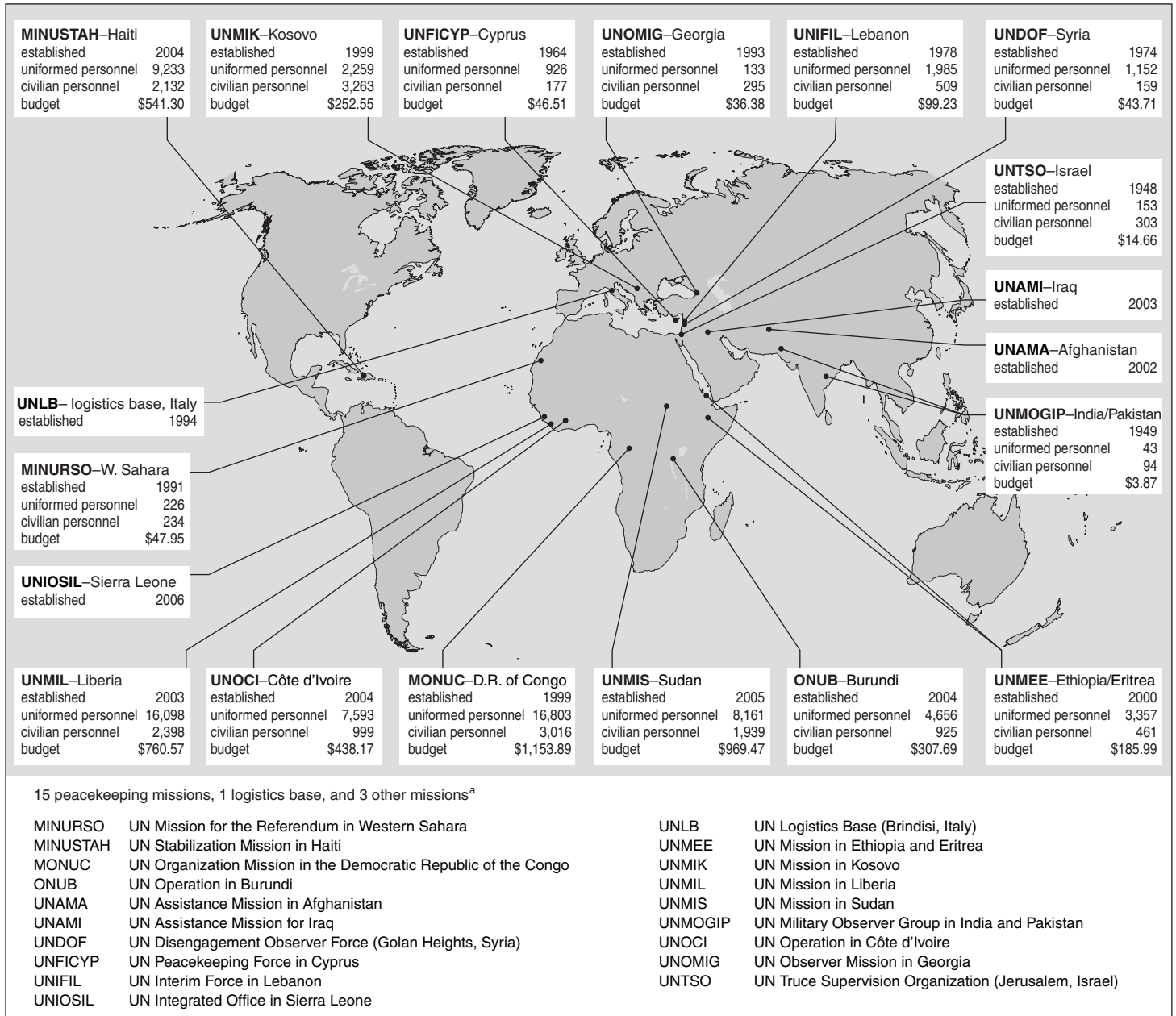
³Deloitte, *Assessment of Internal Controls in the United Nations Secretariat Procurement Operations-Final Report* (Nov. 30, 2005); and the National Institute of Governmental Purchasing, *Assessment of UNPS Procurement Processes* (Herndon, Va., June 2005).

⁴Independent Inquiry Committee into the Oil-for-Food Programme, *Third Interim Report* (Aug. 8, 2005).

⁵United Nations, *Procurement Study Report* (New York, December 1994).

**Appendix I
Scope and Methodology**

Figure 5: Peacekeeping and Other Missions Administered by the Department of Peacekeeping Operations



Sources: GAO analysis of UN data as of February 2006; Cartesia MapArt (map).

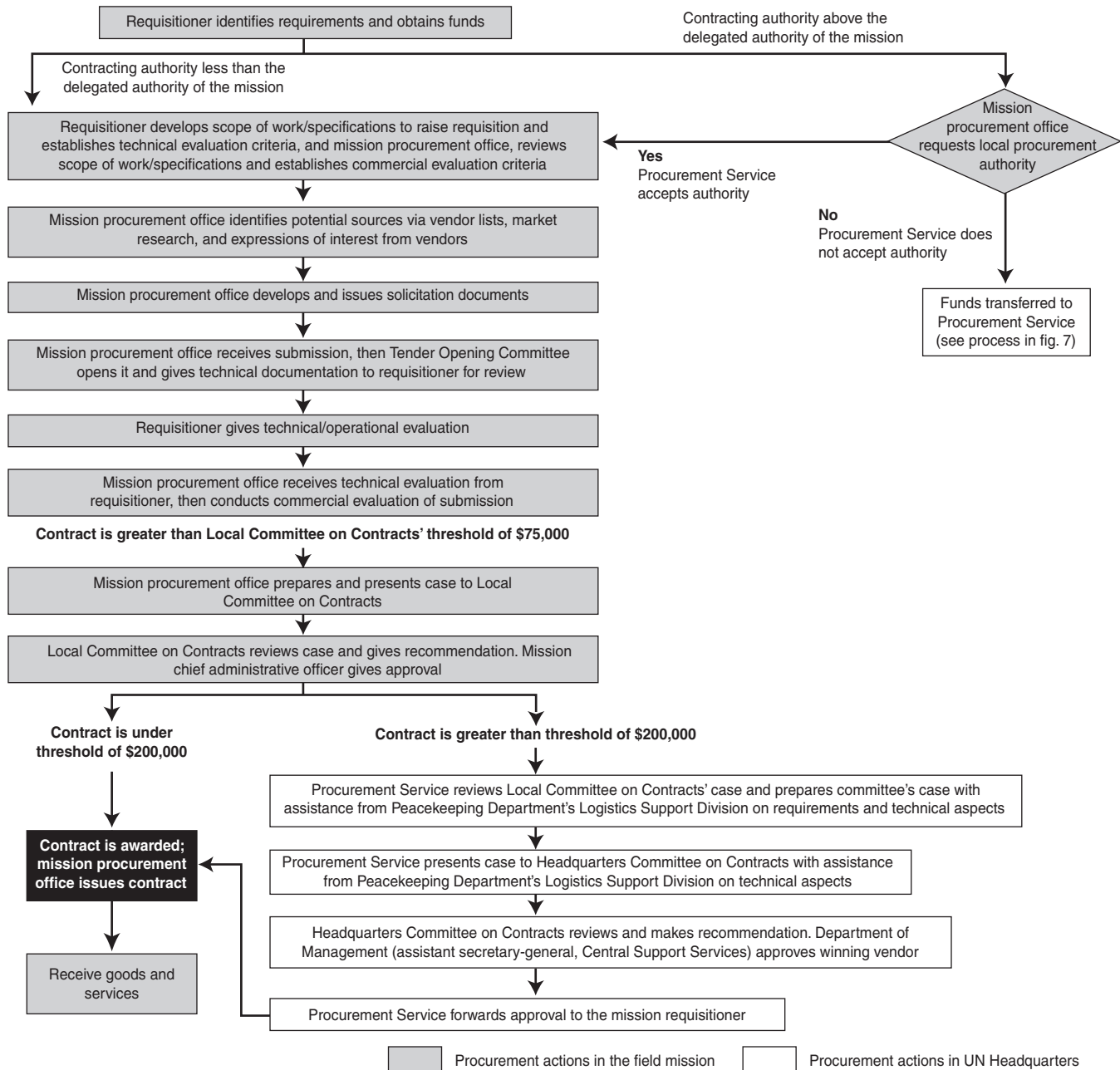
Notes: Dollars in millions.

Appendix I
Scope and Methodology

We contacted the 19 missions shown above. They consist of all 15 of the UN's current peacekeeping operations, one logistics base (UNLB), and three other missions administratively supported by the Peacekeeping Department (UNAMA, UNAMI, and UNIOSIL).

UN Procurement Processes

Figure 6: Procurement Process in the Field

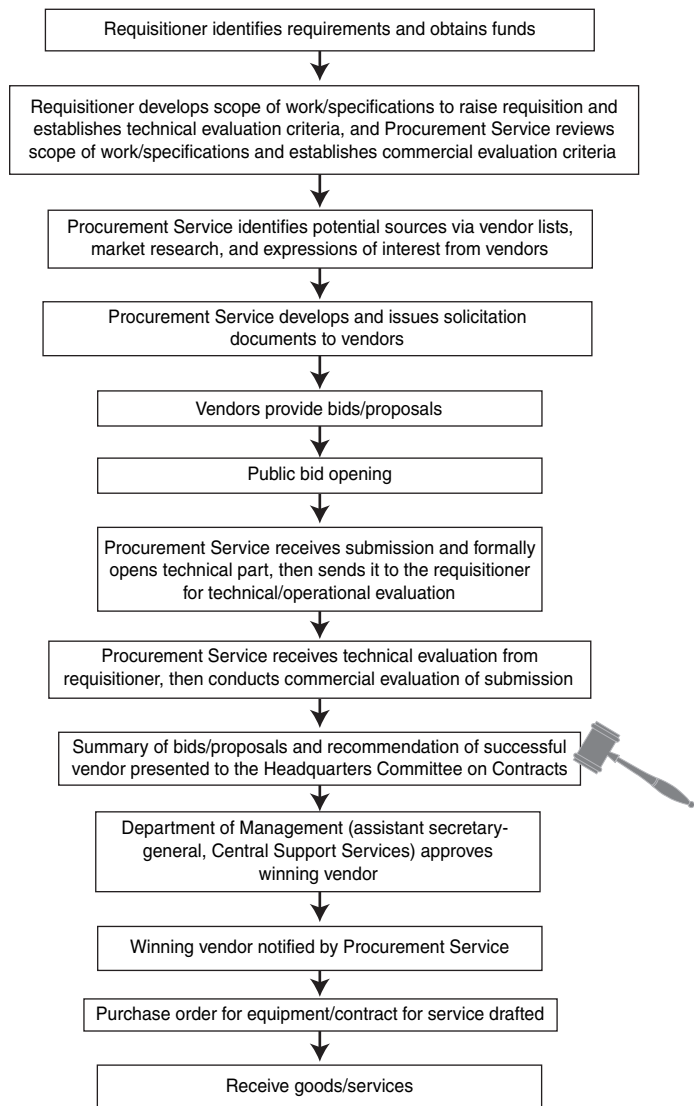


Sources: GAO, *United Nations: Progress of Procurement Reforms*, GAO/NSIAD-99-71 (Washington, D.C.: Apr. 15, 1999); and United Nations Procurement Manual, Rev. 02, UN Department of Management (January 2004).

Appendix II
UN Procurement Processes

Note: In cases of certain defined core requirements, peacekeeping field offices may award up to \$1 million without prior review by the Headquarters Committee on Contracts or the approval of the Department of Management.

Figure 7: Procurement Process in UN Headquarters for Contracts Greater Than \$200,000



Sources: GAO, *United Nations: Progress of Procurement Reforms*, GAO/NSIAD-99-71 (Washington, D.C.: Apr. 15, 1999); and United Nations Procurement Manual, Rev. 02, UN Department of Management (January 2004).

Comments from the Department of State



United States Department of State

Assistant Secretary and Chief Financial Officer

Washington, D.C. 20520

APR 18 2006

Ms. Jacquelyn Williams-Bridgers
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "UNITED NATIONS: Procurement Internal Controls Are Weak," GAO Job Code 320345.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Heather Ward, Program Analyst, Bureau of International Organization Affairs, at (202) 647-6279.

Sincerely,

A handwritten signature in black ink, appearing to read "Bradford R. Higgins".

Bradford R. Higgins

cc: GAO – Pierre Toureille
IO – Kristen Silverberg
State/OIG – Mark Duda

**Department of State Comments on GAO Draft Report
United Nations: Procurement Internal Controls are Weak
(GAO-06-577, GAO Code -- 320345)**

Thank you for the opportunity to comment on your draft report entitled *United Nations: Procurement Internal Controls are Weak*. The Department of State welcomes the GAO report and endorses its recommendations. The Department has actively supported procurement reform in the UN. Our efforts have been reflected, among other places, in relevant General Assembly resolutions (e.g., A/RES/59/288, A/RES/57/279, and A/RES/55/247), where we have joined other Member States in acknowledging the Secretary-General's efforts to reform procurement practices and, more importantly, called on the Secretary-General to improve training for procurement staff, purchasing practices, and implement ethics guidelines.

We are pleased that GAO highlights the Department of State's most recent actions to advocate procurement reform. The U.S. Permanent Representative to the UN has stressed the urgent need to address management weaknesses in procurement. During the U.S. Presidency of the Security Council in February 2006, the U.S. Permanent Representative raised the profile of procurement weaknesses by chairing a historic Security Council review of the Department of Peacekeeping Operation's (DPKO) problems. The session highlighted the institutional weaknesses, in the Department of Management and DPKO, including the lack of effective internal controls that led to the procurement problems.

As the GAO report notes, the U.S. Mission to the UN has actively advocated management reforms aimed at achieving a more efficient, effective, accountable, and transparent UN, including by pressing for the establishment of an Ethics Office, strengthened auditing and oversight systems, and creation of an Independent Audit Advisory Committee (IAAC). We believe these measures, in addition to an overhaul of the procurement system, will strengthen internal controls and thereby create a more transparent and accountable organization.

The Department of State concurs that institutional weaknesses, leadership failures, lack of accountability and the growth of peacekeeping operations have caused UN procurement operations to be vulnerable to fraud, waste, abuse, and mismanagement. We found GAO's conclusions to be thoughtful and note that they echo the conclusions reached in previous reports in this subject area, including the Deloitte report entitled *Assessment of Internal Controls in the UN Secretariat Procurement Operations*, the OIOS's report entitled *Comprehensive Management*

Review of the Department of Peacekeeping Operations – Procurement, and the reports of the Independent Inquiry Committee into the Oil for Food Program.

We recognize that since the last GAO report on UN procurement in 1999, the UN has taken concrete measures to increase training for field and headquarter personnel, harmonize procurement practices and cooperation among UN entities, promote procurement manual effectiveness, and adopt and implement the procurement principle of the “best value for money.” However, these reforms and proactive efforts have to date been insufficient to address adequately system-wide problems, including resource shortfalls and the lack of oversight and internal controls noted in various reports and by procurement officials themselves.

We will work with other Member States to encourage the Secretary-General to follow through on the recommendations contained in the report. In the recent report, *Investing in the UN: for a stronger Organization Worldwide (A/60/692)*, the Secretary-General recognized that procurement must be strengthened and made proposals that address many of the concerns raised by the GAO. The Secretary-General’s report includes proposals on concluding investigations quickly, updating procedures, implementing a risk-management framework, improving training, reprofiling procurement staff, and increasing information sharing.

The necessity of procurement reform is undeniable given the problems already exposed and the increasing number of peacekeeping missions. Indeed, it is a time for wholesale change in procurement. Our ultimate goal must be effective, efficient, responsible and accountable management of this billion dollar-plus operation. The United States has established several partnerships with other like-minded UN members towards that goal.

GAO Contact and Staff Acknowledgments

GAO Contact

Thomas Melito, (202) 512-9601 or melitot@gao.gov

Staff Acknowledgments

In addition to the person named above, Phyllis Anderson, Assistant Director; Pierre Toureille; Kristy Kennedy; Clarette Kim; Barbara Shields; and Lynn Cothorn made key contributions to this report. Jaime Allentuck, Martin De Alteriis, Bonnie Derby, Timothy DiNapoli, Mark Dowling, Etana Finkler, John Krump, and James Michels also provided technical assistance.

Related GAO Products

United Nations: Funding Arrangements Impede Independence of Internal Auditors. [GAO-06-575](#). Washington, D.C.: April 25, 2006.

United Nations: Lessons Learned from Oil for Food Program Indicate the Need to Strengthen UN Internal Controls and Oversight. [GAO-06-330](#). Washington, D.C.: April 25, 2006.

Peacekeeping: Cost Comparison of Actual UN and Hypothetical U.S. Operations in Haiti. [GAO-06-331](#). Washington, D.C.: February 21, 2006.

United Nations: Preliminary Observations on Internal Oversight and Procurement Practices. [GAO-06-226T](#). Washington, D.C.: October 31, 2005.

United Nations: Sustained Oversight Is Needed for Reforms to Achieve Lasting Results. [GAO-05-392T](#). Washington, D.C.: March 2, 2005.

United Nations: Oil for Food Program Audits. [GAO-05-346T](#). Washington, D.C.: February 15, 2005.

United Nations: Reforms Progressing, but Comprehensive Assessments Needed to Measure Impact. [GAO-04-339](#). Washington, D.C.: February 13, 2004.

United Nations: Progress of Procurement Reforms. [GAO/NSIAD-99-71](#). Washington, D.C.: April 15, 1999.

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