



Highlights of [GAO-04-730T](#), a testimony before the House Committee on International Relations

Why GAO Did This Study

The Oil for Food program was established by the United Nations and Iraq in 1996 to address concerns about the humanitarian situation after international sanctions were imposed in 1990. The program allowed the Iraqi government to use the proceeds of its oil sales to pay for food, medicine, and infrastructure maintenance. The program appears to have helped the Iraqi people. From 1996 through 2001, the average daily food intake increased from 1,300 to 2,300 calories. From 1997 to 2002, Iraq sold more than \$67 billion of oil through the program and issued \$38 billion in letters of credit to purchase commodities. However, over the years numerous allegations have surfaced concerning potential fraud and program mismanagement.

GAO (1) reports on its estimates of the illegal revenue acquired by the former Iraqi regime in violation of U.N. sanctions, (2) provides observations on program administration; (3) describes the challenges facing the CPA and the Iraqi government in administering remaining contracts, and (4) discusses potential issues for further investigation.

www.gao.gov/cgi-bin/getrpt?GAO-04-730T.

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

UNITED NATIONS

Observations on the Management and Oversight of the Oil for Food Program

What GAO Found

GAO estimates that from 1997 to 2002, the former Iraqi regime acquired \$10.1 billion in illegal revenues, including \$5.7 billion in oil smuggled out of Iraq and \$4.4 billion through surcharges on oil sales and illicit commissions from suppliers exporting goods to Iraq through the Oil for Food program. This estimate includes oil revenue and contract amounts for 2002, updated letters of credit from prior years, and newer estimates of illicit commissions from commodity suppliers.

The U.N. Secretary General, through the Office of the Iraq Program (OIP) and the Security Council, through its Iraq sanctions committee, were both responsible for overseeing the Oil for Food Program. However, the Security Council allowed the Iraq government, as a sovereign entity, to negotiate contracts directly with purchasers of Iraqi oil and suppliers of commodities. This structure was an important factor in allowing Iraq to levy illegal surcharges and commissions. OIP was responsible for examining Iraqi contracts for price and value, but it is unclear how it performed this function. The sanctions committee was responsible for monitoring oil smuggling, screening contracts for items that could have military uses, and approving oil and commodity contracts. The sanctions committee took action to stop illegal oil surcharges, but it is unclear what actions it took on contract commissions. U.N. external audit reports contained no findings of program fraud. Summaries of internal audit reports pointed to some concerns regarding procurement, coordination, monitoring, and oversight and concluded that OIP had generally responded to audit recommendations.

OIP transferred responsibility for 3,059 Oil for Food contracts—with pending shipments valued at \$6.2 billion—to the CPA on November 22, 2003. Poor communication and coordination on contracting documents and inadequate staffing hampered efforts by the CPA's Oil for Food coordination center in Baghdad to ensure that commodities continued to be delivered. The execution of food contracts was also affected by evolving decisions about food distribution, inadequate coordination, and security issues. Challenges face the interim Iraqi government as it balances the need to reform a costly food subsidy program with the need to maintain food stability and protect the poorest populations. Also, inadequate oversight and alleged corruption in the program raise concerns about the Iraqi government's ability to manage the remaining Oil for Food commodities, continue the food distribution system, and absorb \$32 billion in expected donor funds for reconstruction. The CPA has taken steps to build internal controls and accountability measures in Iraq's ministries.

Several investigations of the Oil for Food program will soon be under way. These efforts may wish to consider several areas for further analysis to better determine the extent of corruption in the program, the adequacy of internal controls, and the lessons learned in implementing a large-scale humanitarian aid program within a sanctions framework.