

April 2006

UNITED NATIONS

Funding
Arrangements Impede
Independence of
Internal Auditors



G A O

Accountability * Integrity * Reliability

Highlights of [GAO-06-575](#), a report to congressional committees

UNITED NATIONS

Funding Arrangements Impede Independence of Internal Auditors

Why GAO Did This Study

With contributions to United Nations (UN) organizations totaling more than \$1.6 billion in 2006-2007, the United States has advocated strong UN oversight. In 1994, the United States provided support to establish the Office of Internal Oversight Services (OIOS). The findings of the Independent Inquiry Committee (IIC) into the Oil for Food Program have renewed concerns about UN oversight, and the 2005 World Summit proposed actions to improve OIOS. We were asked to examine (1) the extent to which UN funding arrangements for OIOS ensure independent oversight, and (2) the consistency of OIOS practices with key international auditing standards.

What GAO Recommends

We recommend that the Secretary of State and the Permanent Representative of the United States to the UN work with member states to support budgetary independence for OIOS, complete a risk management framework, develop a workforce planning methodology, report to the General Assembly on risk and control issues facing the UN, and institute mandatory training requirements, among other things.

The Department of State and OIOS generally agreed with our overall findings and recommendations.

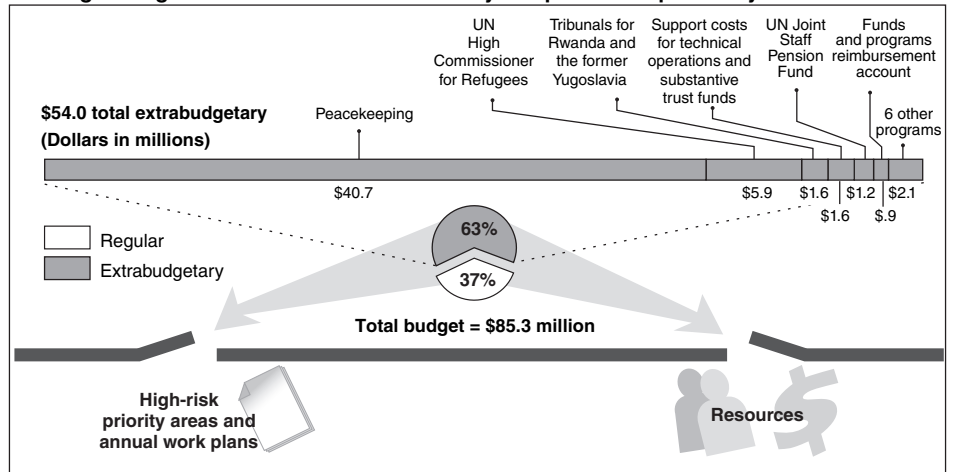
www.gao.gov/cgi-bin/getrpt?GAO-06-575.

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

What GAO Found

UN funding arrangements constrain OIOS's ability to operate independently as mandated by the General Assembly and required by international auditing standards that OIOS has adopted. First, while OIOS is funded by a regular budget and 12 other revenue streams, UN financial rules severely limit OIOS's ability to reallocate resources among revenue streams, locations, and operating divisions. Thus, OIOS cannot always direct resources at high-risk areas when they arise. Second, OIOS is dependent on the funds, programs, and other entities it audits for reimbursement for its services. The managers of the programs OIOS intends to examine can deny OIOS permission to perform work or not pay OIOS for services. UN entities could thus avoid OIOS audits or investigations, and high-risk areas can be and have been excluded from examination.

Funding Arrangements Constrain OIOS's Ability to Operate Independently



Source: GAO analysis of OIOS data.

OIOS has begun to implement key measures for effective oversight, but some of its practices fall short of applicable international auditing standards. OIOS develops an annual work plan, but the risk management framework on which the work plans are based is not fully implemented. Moreover, OIOS annual reports do not assess risk and control issues facing the UN organization or the consequences if these are not addressed. OIOS officials report that the office does not have adequate resources, but they also do not have a mechanism to determine appropriate staffing levels. Moreover, OIOS has no mandatory training curriculum for staff or systematic procedures for ensuring the reliability of data used for their audits. OIOS also does not require all staff to document their independence. Although two OIOS divisions have recently undergone external reviews, the other two have not undergone such a review within the last 5 years. OIOS monitors and reports on the status of its recommendations and is making efforts to improve follow up on oversight recommendations.

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Abbreviations

ACABQ	Advisory Committee on Administrative and Budgetary Questions
CEB	Chief Executives Board
IAEA	International Atomic Energy Agency
IIA	Institute of Internal Auditors
IIC	Independent Inquiry Committee
INTOSAI	International Organization of Supreme Auditing Institutions
OIOS	Office of Internal Oversight Services
OPPBA	Office of Program Planning, Budget, and Accounts
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

As the largest financial contributor to the United Nations (UN) with assessed and voluntary contributions totaling more than \$1.6 billion to the UN in 2006,¹ the United States has advocated the need for strong oversight for years and provided early support to establish the Office of Internal Oversight Services (OIOS) in 1994. The findings of the Independent Inquiry Committee (IIC) into the UN's Oil for Food Program in February 2005 renewed long-standing concerns about the independence, resources, and professional standards of internal oversight functions at the UN.² To address these concerns, in September 2005, heads of member states of the UN approved the World Summit Outcome Document that called for a series of reforms to strengthen the OIOS.

In response to your request for a study on the internal oversight function at the United Nations, we examined (1) the extent to which UN funding arrangements for OIOS ensure independent oversight, (2) the consistency

¹This includes funding for the UN Secretariat, funds and programs, and peacekeeping operations.

²In 1996, the UN and Iraq established the Oil for Food program to address Iraq's humanitarian situation after sanctions were imposed in 1990. In April 2004, the UN established the IIC to investigate the administration and management of the UN Oil for Food program. See Independent Inquiry Committee into the United Nations Oil-for-Food Program, *Interim Report* (New York, N.Y.: Feb. 3, 2005), and *The Management of the Oil-for-Food Program* (New York, N.Y.: Sept. 7, 2005).

of OIOS's practices with key international auditing standards, (3) coordination among UN oversight entities, and (4) U.S. government efforts to advance UN reforms to strengthen internal oversight.³ In addition, as requested, we are providing information on the budget and staff resources of selected UN oversight entities.

To address our objectives, we reviewed relevant UN and OIOS reports, manuals, and numerous program documents, as well as international auditing standards such as those of the Institute of Internal Auditors (IIA) and the International Organization of Supreme Auditing Institutions (INTOSAI). The IIA standards apply to internal audit activities—not to investigations, monitoring, evaluation, and inspection activities. However, we applied these standards OIOS-wide, as appropriate, in the absence of international standards for non-audit oversight activities. We met with senior Department of State (State) officials in Washington, D.C., and senior officials with the U.S. Missions to the UN in New York, Vienna, and Geneva. At these locations, we also met with OIOS management officials and staff; representatives of Secretariat departments and offices, as well as the UN funds, programs, and specialized agencies;⁴ and the UN external auditors—the Board of Auditors (in New York) and the Joint Inspection Unit (in Geneva). To assess the reliability of OIOS's funding and staffing data for fiscal bienniums 1996-1997 to 2006-2007, we reviewed the OIOS's budget documents and discussed the data with relevant officials. To review OIOS's recommendations monitoring process, we discussed the data collection procedures with relevant officials. We determined that the data we used to examine the budget, staffing, and recommendations were sufficiently reliable for the purposes of this report. We performed our work between April 2005 and March 2006 in accordance with generally accepted U.S. government auditing standards. (Appendix I provides a detailed discussion on our scope and methodology.)

³For related work on OIOS's oversight of UN activities, see GAO, *United Nations: Preliminary Observations on Internal Oversight and Procurement Practices*, [GAO-06-226T](#) (Washington, D.C.: Oct. 31, 2005). See also *United Nations: Procurement Internal Controls Are Weak*, [GAO-06-577](#) (Washington, D.C., Apr. 25, 2006) and *United Nations: Lessons from Oil for Food Program Indicate Need to Strengthen Internal Controls and Oversight*, [GAO-06-330](#) (Washington, D.C.: Apr. 25, 2006).

⁴UN funds and programs include, for example, the UN Children's Fund and UN Development Program, which have executive boards and executive heads but are under the authority of the UN Secretary-General. Specialized agencies, such as the Food and Agriculture Organization, have their own governing bodies and executive heads and are not under the authority of the Secretary-General.

Results in Brief

UN funding arrangements constrain OIOS's ability to operate independently as mandated by the General Assembly and required by international auditing standards that OIOS has adopted. According to these standards, an institution's financial regulations should not restrict an audit organization from fulfilling its mandate, and the audit organization should have appropriate and sufficient resources to achieve its mandate. First, while OIOS is funded by the UN's regular budget and 12 other revenue streams, UN financial regulations and rules severely limit OIOS's flexibility to reallocate resources among revenue streams, locations, and operating divisions. As a result, OIOS cannot always deploy the resources necessary to address high-risk areas that may emerge after its budget is approved. Second, OIOS is dependent on UN funds and programs (and other UN entities) for resources for the services it provides. OIOS must obtain permission to perform audits or investigations from the managers of funds and programs, and negotiate the terms of work and payment for those services with them. Moreover, the heads of these entities have the right to deny funding for the oversight work OIOS proposes. By denying OIOS funding, UN entities could avoid, and have avoided, OIOS audits; high-risk areas could therefore be excluded from adequate examination. For example, the practice of allowing the heads of programs the right to approve funding of internal audit activities prevented OIOS from examining high-risk areas in the UN Oil for Food program, where billions of dollars were subsequently found to have been misused.

Although OIOS has developed and begun to implement key components of effective oversight, some of OIOS's audit practices fall short of meeting the international auditing standards it has adopted. Specifically, while OIOS develops an annual work plan, it has not fully implemented a risk management framework to provide reasonable assurance that its annual work plans are based on a systematic assessment of risks. As a result, OIOS may not be allocating resources to areas in the UN with the highest exposure to fraud, waste, and abuse. Moreover, OIOS annual reports do not provide an overall assessment of risk exposures and control issues facing the UN organization as a whole, or the consequences to the organization if the risks are not addressed. In terms of resource management, OIOS officials report that the office does not have adequate resources; however, they do not have a mechanism in place to determine appropriate staffing levels and help justify budget requests. Moreover, OIOS has no mandatory training curriculum for staff to develop their expertise, nor does the office have guidance and systematic procedures to ensure that the data it uses to support its work are reliable. Except for the Investigations Division, OIOS

also has no requirement for staff to document their independence as called for by international auditing standards. In terms of quality assurance, although two OIOS divisions have undergone external reviews, the other two have not complied with the requirement for such a review every 5 years. To monitor the disposition of the recommendations it has made, OIOS has a system to track and report regularly on the status of its recommendations, and efforts to strengthen this system are under way.

The internal and external oversight bodies of the various UN organizations have made efforts to coordinate their activities; however, responsibilities for ensuring a comprehensive approach to oversight are unclear. To avoid duplication and leverage resources within the UN oversight community, the General Assembly and many member states have emphasized the importance of coordination between OIOS and the UN external oversight bodies—the Joint Inspection Unit and the Board of Auditors—and among the oversight offices of the UN funds and programs, specialized agencies, and other entities. However, existing forums to foster coordination primarily provide opportunities for sharing information and best practices. They are not meant to fully explore joint activities that could avoid duplication of efforts and leverage resources. OIOS, the Joint Inspection Unit, and the Board of Auditors share annual work plans—which can help identify gaps in oversight coverage and avoid unnecessary duplication. Also, OIOS is required to provide copies of its reports to the Joint Inspection Unit and the Board of Auditors for comment as appropriate. However, the practice of sharing work plans and the requirement to share reports do not apply to the internal oversight entities of separately administered UN funds and programs, and specialized agencies. Many of these UN entities are not subject to OIOS oversight but represent a substantial portion of UN-wide activities and report to their respective governing bodies. Without clear responsibilities for coordination and concerted efforts to collaborate on joint activities, it is difficult to ascertain gaps in oversight coverage, identify opportunities to avoid duplication of effort, or fully leverage the resources of the UN oversight community.

The United States has made advancing UN reforms to strengthen internal oversight a priority, but a key senior-level vacancy at State may have limited the U.S. ability to influence management reforms. As part of U.S. efforts to reform UN management, State has adopted a multifaceted approach to creating a culture of transparency, accountability, and efficiency. In addition, a State representative co-chairs the Geneva Group Focal Group on Oversight. The focal group is completing an overview of internal oversight in the UN agencies and plans to issue its report in fall

2006. Although the United States has made efforts to advance UN reforms to strengthen internal oversight a priority, the position of U.S. Representative for UN Management Reform at the U.S. Mission to the UN in New York was vacant for more than a year. This position was recently filled in March 2006. U.S. Mission officials stated that this vacancy limited the mission's ability to influence oversight and other management reform proposals during the months leading up to the 2005 World Summit and the resulting document.

This report makes recommendations to the Secretary of State and the Permanent Representative of the United States to the UN to work with member states to support budgetary independence for OIOS and OIOS's efforts to more closely adhere to international auditing standards, including measures to

- ensure reliable funding arrangements that do not undermine the independence of OIOS, and provide it with sufficient resources that it can reallocate or deploy as may be necessary to meet high-risk areas as they arise;
- complete the implementation of OIOS's risk management framework;
- report to the General Assembly on the status of significant risks and control issues facing the UN organization;
- develop a workforce planning methodology;
- institute a mandatory training curriculum for OIOS professional staff;
- establish guidance and procedures for assessing the reliability of data used to support significant findings in OIOS reports; and
- require all OIOS professional staff to file statements of independence and financial disclosures, and institute procedures to adequately review such statements.

In commenting on the official draft of this report, OIOS and State agreed with our overall conclusions and recommendations. OIOS stated that observations made in our report were consistent with OIOS's internal assessments and external peer reviews. State fully agreed with GAO's finding that UN member states need to ensure that OIOS has budgetary independence. However, State does not believe that multiple funding

sources have impeded OIOS's budgetary flexibility. We found that current UN regulations and rules are very restrictive, severely limiting the ability to move funds across revenue streams to emerging or high priority areas. OIOS and State also reviewed a draft of this report for technical accuracy. We incorporated their technical comments and updates throughout the report, as appropriate. We have reprinted OIOS's and State's comments in appendixes VI and VII, respectively.

Background

OIOS was created in 1994 to assist the Secretary-General in fulfilling internal oversight responsibilities over UN resources and staff. (See fig. 1 for a timeline of the development of OIOS since 1994.) The stated mission of OIOS is "to provide internal oversight for the United Nations that adds value to the organization through independent, professional, and timely internal audit, monitoring, inspection, evaluation, management consulting, and investigation activities and to be an agent of change that promotes responsible administration of resources, a culture of accountability and transparency, and improved program performance." As an internal auditor, OIOS audit reports were previously available to only the Secretary-General and the heads of UN entities under examination. However, in December 2004, the General Assembly passed a resolution making all OIOS's reports available to any member state upon request.⁵

⁵See G. A. Res. 59/272, U.N. GAOR, 59th Sess., U.N. Doc. A/RES/59/272 (2005).

Figure 1: Development of OIOS

1994-1995	1996-1997	1998-1999	2000-2001	2002-2003	2004-2005	2006-2007
Past						Present
<p>Jul. 1994: OIOS established</p> <p>Nov. 1994: First Under Secretary-General for OIOS assumed duties</p>	<p>Nov. 1997: First Tripartite Oversight Coordination meeting</p>	<p>Sept. 1999: First meeting of the Conference of Investigators and Bilateral Organizations</p> <p>Dec. 1999: OIOS mandate reviewed by the General Assembly</p>	<p>Apr. 2000: Second Under Secretary-General assumed duties</p> <p>Nov. 2001: OIOS launched its risk management framework</p>	<p>Mar. 2002: Representatives of Internal Audit Services adopted Institute of Internal Auditors standards</p> <p>Sept. 2002: OIOS completed final report on pilot risk assessment project at UN Mission in Kosovo</p> <p>Apr. 2003: Uniform Guidelines for Investigations adopted</p> <p>May 2003: OIOS launched Organizational Integrity Initiative</p> <p>Sept. 2003: OIOS Investigations Division opened in Vienna</p>	<p>Dec. 2004: OIOS reports made available to any member state</p> <p>Jul. 2005: Current Under Secretary-General assumed duties</p> <p>Sept. 2005: World Summit Outcome</p> <p>Sept. 2005: Secretary-General created a committee to follow up on implementation of oversight recommendations</p> <p>Nov. 2005: General Assembly decided to establish Independent Audit Advisory Committee</p>	<p>Spring 2006: Independent external review of UN governance and oversight to be completed</p>

Source: GAO based on OIOS data.

The UN oversight structure consists of internal and external oversight bodies (see fig. 2). Internal oversight is provided by OIOS for the UN Secretariat and other UN organizations under the authority of the UN Secretary-General; many UN funds and programs, specialized agencies, and other UN organizations have their own internal oversight offices. External oversight is provided by the Board of Auditors,⁶ which examines the UN Secretariat and other UN organizations within the Secretary-General's authority; and the Joint Inspection Unit, which has UN systemwide

⁶The Board of Auditors is presently composed of high-level representatives from the national audit offices of France, the Philippines, and South Africa.

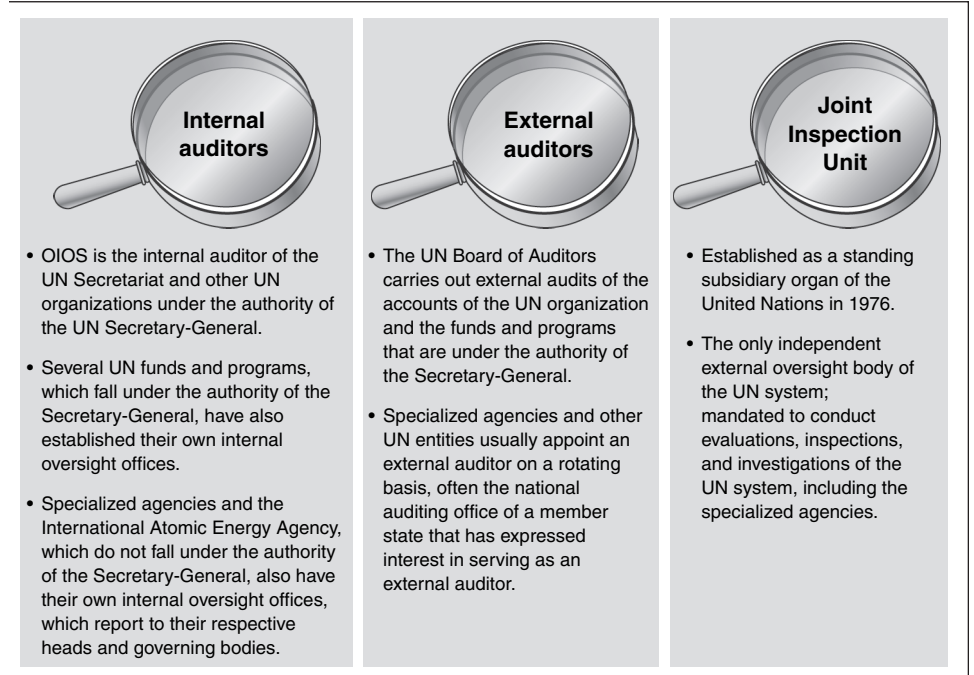
authority.⁷ In general, the Board of Auditors audits the financial statements of the UN Secretariat and UN funds and programs. The Joint Inspection Unit primarily examines thematic areas, such as the possibility of outsourcing certain services that cut across UN organizations, although the unit also examines some single-organization issues.⁸ In addition, UN organizations that have their own internal oversight offices appoint external auditors who serve fixed terms. These external auditors are often from the national auditing office of a member state that has an expressed interest in providing an external auditor.⁹

⁷UN Secretariat, funds and programs, and specialized agencies are participating organizations. According to Joint Inspection Unit inspectors, the legislative bodies of all these UN entities, except for the International Atomic Energy Agency, have designated the Joint Inspection Unit as a subsidiary organ. While the agency is a participating organization, its legislative body has not designated the Joint Inspection Unit as a subsidiary organ.

⁸Although the Joint Inspection Unit's statute provides it with a mandate to conduct investigations, it does not currently have the capacity to carry out this mandate, according to senior officials in the unit.

⁹For example, the national audit office of the United Kingdom currently serves as external auditor for the World Meteorological Organization; Germany serves for the International Atomic Energy Agency; and France for the UN High Commissioner for Refugees.

Figure 2: UN Oversight Bodies



Source: GAO based on UN data.

Organization of OIOS

OIOS is headed by an Under Secretary-General who is appointed by the Secretary-General, with the concurrence of the General Assembly, for a 5-year fixed term with no possibility of renewal.¹⁰ The Under Secretary-General may be removed by the Secretary-General only for cause and with General Assembly approval.

OIOS's authority spans all UN activities under the Secretary-General. These include the UN Secretariat in New York, Geneva, Nairobi, and Vienna; the five regional commissions for Africa, Asia and the Pacific, West Asia, Europe, and Latin America and the Caribbean; peacekeeping missions and humanitarian operations in various parts of the world; and numerous UN funds and programs, such as the UN Environment Program, UN Human

¹⁰The current Under Secretary-General for Internal Oversight Services was appointed in July 2005.

Settlements Program (UN-HABITAT), and the Office of the UN High Commissioner for Refugees. OIOS's authority does not extend to UN specialized agencies such as the Food and Agriculture Organization, International Labor Organization, and World Health Organization (see app. II).

To carry out its responsibilities, OIOS is organized into four operating divisions: (1) Internal Audit Division I (New York); (2) Internal Audit Division II (Geneva); (3) Monitoring, Evaluation and Consulting Division; and (4) Investigations Division.¹¹ An executive office supports the Under Secretary-General and these four divisions. (See app. III for a chart of the OIOS organizational structure and the number of staff in each division.)

Funding Structure

OIOS derives its funding from (1) regular budget resources, which are funds from assessed contributions from member states that cover normal, recurrent activities such as the core functions of the UN Secretariat;¹² and (2) extrabudgetary resources, which come from the budgets for UN peacekeeping missions financed through assessments from member states, voluntary contributions from member states for a variety of specific projects and activities, and budgets for the voluntarily financed UN funds and programs. UN regular budget resources are determined on a biennial basis and are estimated at approximately \$3.8 billion UN-wide for 2006-2007, the current biennium. OIOS's share of regular budget resources is estimated at about \$31.3 million for fiscal biennium 2006-2007.

¹¹Prior to 1993, the major internal oversight functions of the Secretariat were carried out by units within the Department of Administration and Management. These units were consolidated in August 1993 to form the Office for Inspections and Investigations under an Assistant Secretary-General. An independent investigation function has existed in the UN only since 1994, when it was established within OIOS.

¹²The Secretariat carries out the day-to-day work of the UN Organization, such as administering peacekeeping operations, mediating international disputes, surveying economic and social trends and problems, and preparing studies on human rights and sustainable development.

Extrabudgetary resources are estimated at \$5.6 billion for the biennium 2006-2007; OIOS's share of extrabudgetary resources is about \$54 million.¹³

UN Funding Arrangements Hinder Independent Oversight

The General Assembly mandate creating OIOS calls for it to be operationally independent. In addition, according to international auditing standards, an internal oversight unit should have sufficient resources to effectively achieve its mandate. In practice, however, OIOS's independence is impaired by constraints that UN funding arrangements impose. First, while OIOS is funded by a regular budget and 12 other revenue streams, UN financial regulations and rules severely limit OIOS from reallocating its resources between funding sources, locations, and operating divisions as may be necessary. Second, OIOS is dependent on UN funds and programs and other UN entities for resources and reimbursement for the services it provides. As a result of these structural constraints, OIOS may not be able to examine high-risk areas as appropriate.

UN Mandate and International Auditing Standards Require Independence

In passing the resolution that established OIOS in August 1994, the General Assembly stated that the office shall exercise operational independence and that the Secretary-General, when preparing the budget proposal for OIOS, should take into account the independence of the office.¹⁴ The UN mandate for OIOS was followed by a Secretary-General's bulletin in September 1994 stating that OIOS discharge its responsibilities without any hindrance or need for prior clearance.¹⁵

¹³Extrabudgetary resources cited include those estimated as available during the period for the programs specified in the program budget. These resources—derived from sources other than the regular budget—are mainly voluntary contributions and include related program support, such as central administrative structures. According to an official with the Office of Program Planning, Budget, and Accounts, the \$5.6 billion figure provided includes the support account for peacekeeping, but does not include the majority of peacekeeping resources, which relate specifically to mission activities.

¹⁴G. A. Res. 48/218B, U.N. GAOR, 48th Sess., U.N. Doc. A/RES/48/218 B (1994).

¹⁵*Establishment of the Office of Internal Oversight Services: Secretary-General's Bulletin*, U.N. Doc. ST/SGB/273, at para. 4.

In addition, the Institute of Internal Auditors (IIA) standards for the professional practice of auditing,¹⁶ which OIOS and its counterparts in other UN organizations formally adopted in 2002, state that audit resources should be appropriate, sufficient, and effectively deployed. These standards also state that an internal audit activity should be free from interference and that internal auditors should avoid conflicts of interest. International auditing standards also state that financial regulations and the rules of an international institution should not restrict an audit organization from fulfilling its mandate.¹⁷

Funding Arrangements Hinder OIOS's Flexibility to Reallocate Resources to Address High-Risk Areas

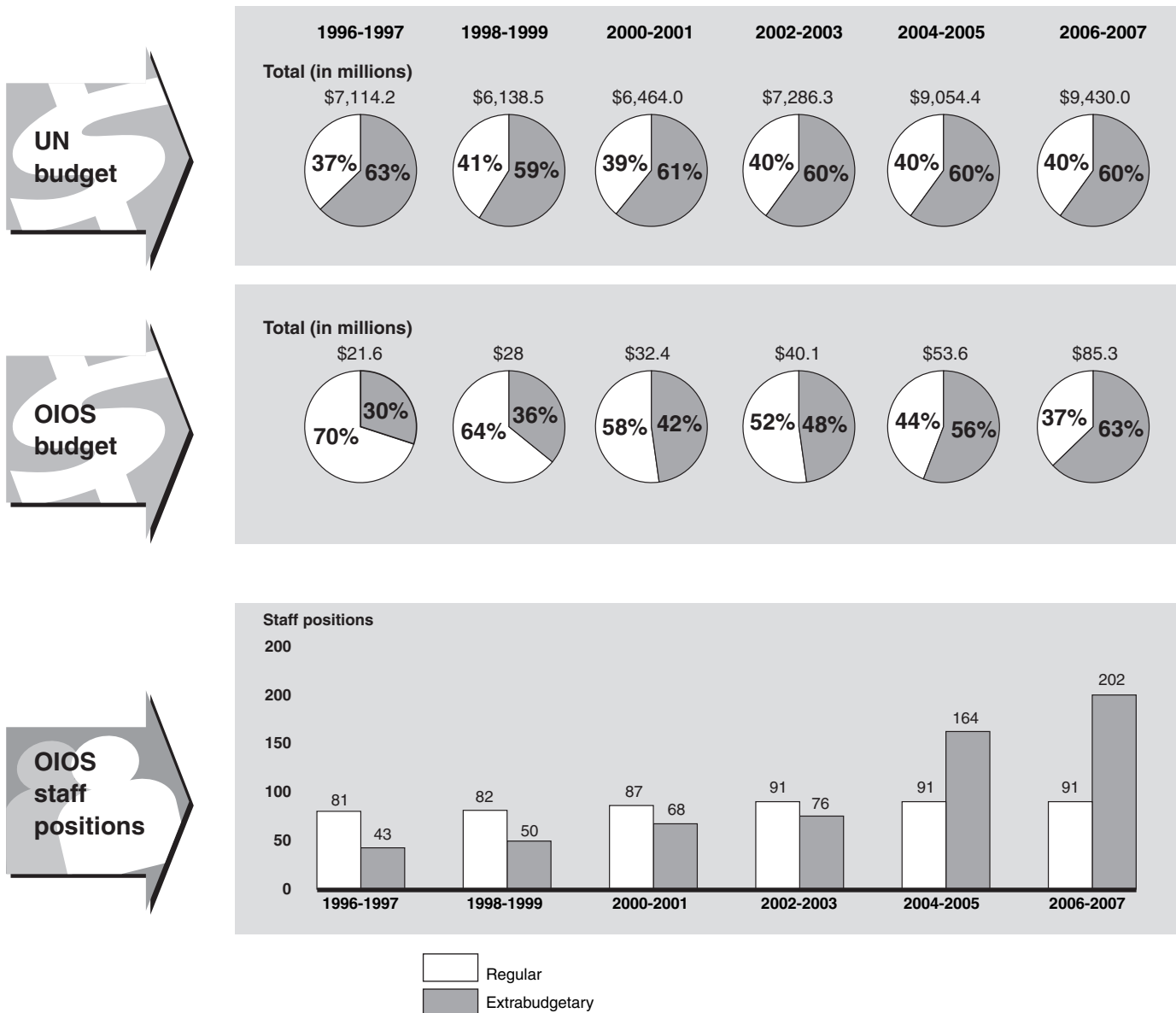
In addition to funding from the UN regular budget, OIOS receives extrabudgetary funding from 12 different revenue streams. These include funds and programs, a peacekeeping support account, and tribunals for Rwanda and the former Yugoslavia.¹⁸ Although the UN's regular budget and extrabudgetary funding percentages over the years have remained relatively stable, an increasing share of OIOS's budget is comprised of extrabudgetary resources (see fig. 3). OIOS's extrabudgetary funding has steadily increased over the past decade, from 30 percent in fiscal biennium 1996-1997 to 63 percent in fiscal biennium 2006-2007 (in nominal terms). The majority of OIOS's staff (about 69 percent) is funded with extrabudgetary resources. The growth in the office's budget is primarily due to extrabudgetary resources for audits and investigations of peacekeeping operations, including issues related to sexual exploitation and abuse.

¹⁶IIA is recognized as the internal audit profession's leader in certification, education, research, and technological guidance. Developed and maintained by the IIA, *The Code of Ethics and Standards* is mandatory guidance considered to be essential to the professional practice of internal auditing. *The International Standards for the Professional Practice of Internal Auditing* provides guidance for the conduct of internal auditing at both the organizational and individual auditor levels.

¹⁷International Organization of Supreme Audit Institutions (INTOSAI), *Principles for Best Audit Arrangements for International Institutions* (Oct. 2004).

¹⁸The 12 funding sources are peacekeeping support account, funds and programs reimbursement account, technical operations program support costs, substantive trust funds program support costs, UN Joint Staff Pension Fund, International Tribunal for the former Yugoslavia, International Criminal Tribunal for Rwanda, Capital Master Plan 2, Office for the Coordination of Humanitarian Affairs program support costs, UN High Commissioner for Refugees, International Trade Center, and UN Drug Control Program.

Figure 3: Trends in UN and OIOS Regular Budget and Extrabudgetary Resources, Fiscal Bienniums 1996-1997 to 2006-2007



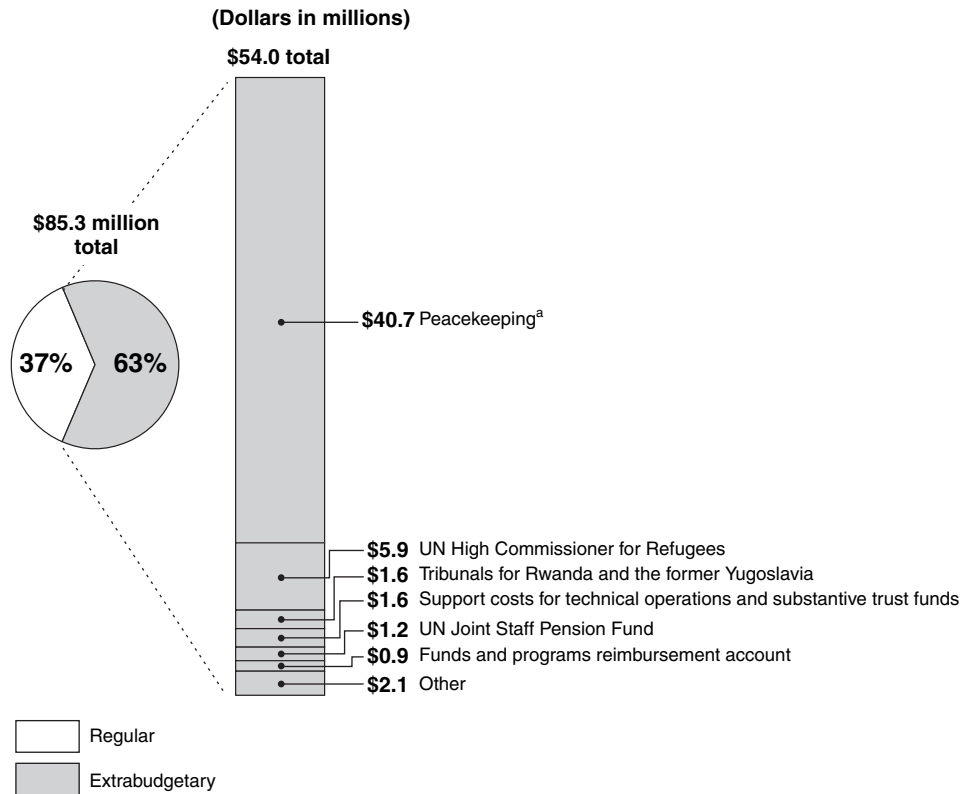
Source: GAO analysis based on UN and OIOS data.

In fiscal biennium 2006-2007, the majority of OIOS's extrabudgetary funds—about \$40.7 million or about 75 percent of the total—represents funding for peacekeeping services, primarily resident auditors and

investigators in the field.¹⁹ (Figure 9 in app. III shows the number of resident auditors and investigators OIOS has in each of its duty stations worldwide.) Figure 4 provides a breakdown of OIOS's extrabudgetary resources by funding source.

¹⁹For the 2006-2007 biennium, the Under Secretary-General of OIOS requested funds to support an additional 39 regular-budget staff positions for the following areas: 27 staff positions for the Investigations Division, of which 24 are slated for Vienna; 10 staff positions for the Internal Audit Division, of which 8 are slated for New York; and 2 staff positions for the Office of the Under Secretary-General. In addition, the Under Secretary-General has stated that the need for resources for a properly staffed and structured OIOS will go far beyond these newly approved staff positions.

Figure 4: OIOS Extrabudgetary Resource Estimates, by Funding Source, Fiscal Biennium 2006-2007



Source: GAO analysis of OIOS data.

^aThe General Assembly is not expected to approve the peacekeeping budget, a key component of extrabudgetary resources, until May or June 2006. Extrabudgetary figures for the fiscal biennium 2006-2007 are estimated.

UN funding arrangements severely limit OIOS's flexibility to reallocate its resources among its multiple funding sources, OIOS locations worldwide, or among its operating divisions—Internal Audit Divisions I and II; Investigations Division; and Monitoring, Evaluation, and Consulting Division—to address changing priorities. In addition, the movement of staff

positions²⁰ or funds between regular and extrabudgetary resources is not allowed. (Appendix IV illustrates the UN budget processes.) For example, one section in the Internal Audit Division may have exhausted its regular budget travel funds, while another section in the same division has travel funds available that are financed by extrabudgetary peacekeeping resources. However, OIOS would breach UN financial regulations and rules if it moved resources between the two budgets.

In addition, the movement of staff positions from one duty station to another can be time consuming. According to the UN budget office and OIOS officials, the redeployment of staff positions between duty stations requires approval by the Fifth Committee,²¹ and is reflected in the budget document and consequently in a staffing authorization. For example, OIOS officials requested a reallocation of 11 staff positions from the Investigations Division in New York to the Investigations Division in Vienna to save travel funds and to be closer to the entities they examine. According to OIOS officials, this change was approved only after repeated requests by OIOS over a number of years. Although OIOS can move staff positions between and across its four divisions to address priority areas, the positions must be funded from the same source as the priority area addressed.

According to OIOS officials, for the last 5 years, OIOS has consistently found it necessary to address very critical cases on an urgent basis. A recent example is the investigations of sexual exploitation and abuse in the Republic of Congo and other peacekeeping operations that identified serious cases of misconduct and the need for increased prevention and detection of such cases. However, the ability to redeploy resources quickly when situations arise has been impeded by restrictions on the use of staff positions. The Under Secretary-General for OIOS has proposed that the office be allowed the flexibility to direct the resources as necessary.

²⁰Throughout this report, we use the term “staff position” to refer to what the UN calls a “post.” For budgeting purposes, the UN defines a post as a budgetary entity at a specific level, in a specific work unit, for a specific purpose.

²¹The Fifth Committee (or the Administrative and Budgetary Committee) is the General Assembly’s main committee for administration and budgetary matters and is comprised of all member states.

Reliance on Other Entities for Funding Could Infringe on OIOS's Independence

OIOS is dependent on UN funds and programs and other UN entities for resources, access, and reimbursement for the services it provides. These relationships present a conflict of interest because OIOS has oversight authority over these entities, yet it must obtain the permission of funds and programs to examine their operations and to receive payment for its services. OIOS negotiates the terms of work and payment for services with the manager of the program it intends to examine, and heads of these entities have the right to deny funding for oversight work proposed by OIOS. By denying OIOS funding, UN entities could avoid OIOS audits or investigations, and high-risk areas could potentially be excluded from adequate examination. In some cases, the fund and program manager have disputed the fees OIOS has charged after investigative services are rendered. For example, 40 percent of the \$2 million billed by OIOS after it completed its work is currently in dispute, and since 2001, less than half of the entities have paid OIOS in full for investigative services it has provided. According to OIOS officials, the office has no authority to enforce payment for services rendered and there is no appeal process, no supporting administrative structure, and no adverse impact on an agency that does not pay or pays only a portion of the bill.

UN funds and programs limit OIOS's ability to independently set its work priorities because they exercise the power to decide whether to fund OIOS oversight activities and to negotiate the level of funding. OIOS officials stated that, because of OIOS's funding arrangements, some high-priority work was not undertaken. For example, the practice of allowing the heads of programs the right to fund internal audit activities prevented OIOS from examining high-risk areas in the UN Oil for Food program where billions of dollars were subsequently found to be misused. The Independent Inquiry Committee into the Oil for Food Program previously reported that the UN Office of the Iraq Program denied OIOS's request in May 2001 for two resident investigators to cover Iraq.²² Also, according to the head of the Investigations Division, the division would like to undertake more investigative work in certain funds and programs, but it does not have the resources to do so. A senior OIOS official said that there are contracts valued in the hundreds of millions of dollars, including certain high-risk UN Procurement Service air contracts that have not been audited in several years because OIOS does not have sufficient staff to perform the work. In

²²Independent Inquiry Committee into the United Nations Oil-for-Food Program, *The Management of the United Nations Oil-for-Food Program* (New York, N.Y.: Sept. 7, 2005).

addition, the official said that OIOS has not audited the UN Secretariat's budget office in a systematic manner.

In November 2005, the Under Secretary-General for OIOS proposed to the Advisory Committee on Administrative and Budgetary Questions (ACABQ)²³ that a single source of funding be established for the office; however, it is unclear whether this proposal is under consideration. OIOS officials said they would prefer that OIOS be allocated a percentage of the UN budget, which would be placed in a trust fund for its use. As envisioned by the Under Secretary-General, the funding would come from one source and provide the flexibility and the independence OIOS needs to perform its oversight functions. Pursuant to the 2005 World Summit, in January 2006, the UN Secretary-General commissioned a study on governance and oversight in the UN. OIOS officials told us that the report is expected to be issued in the summer of 2006. According to OIOS officials, they intend to use the report to help them determine their resource requirements.

OIOS Has Not Fully Met Key Elements of International Auditing Standards

Since its formal adoption of the IIA international standards for the professional practice of internal auditing in 2002, OIOS has begun to develop and implement the key components of effective oversight. However, the office has yet to fully implement them (see fig. 5). Specifically, OIOS develops annual work plans, but these plans are not fully based on a systematic risk assessment process as required by international auditing standards and called for by OIOS's risk management framework. Moreover, OIOS annual reports do not provide an overall assessment of risk exposures and control issues facing the UN organization as a whole or the consequence to the organization if the risks are not addressed. In terms of human resource management, OIOS officials report that the office does not have adequate resources, but they do not have a mechanism in place to determine appropriate staffing levels and help justify budget requests. OIOS has no mandatory training curriculum for staff to develop their expertise nor does it have guidance and systematic procedures to provide reasonable assurance that data it uses are reliable. OIOS also does not require all staff to document their independence. Although OIOS has quality assurance measures in place, it falls short of meeting the

²³ACABQ advises the General Assembly on the budget submitted by the Secretary-General, is authorized to examine the administrative budgets of the specialized agencies, and reports to the General Assembly on the auditors' reports on the accounts of the UN and of the specialized agencies.

international auditing standards in areas such as external assessments. OIOS monitors and reports regularly on the implementation status of its recommendations, but a committee established by the Secretary-General to follow up on the implementation of oversight recommendations is not yet operational.

Figure 5: OIOS’s Progress on Key Elements of International Standards for the Professional Practice of Internal Auditing

Key internal auditing standards	Actions undertaken to date	Actions not yet completed
Managing the internal audit activity: Effectively manage the internal audit activity to ensure that it adds value to the organization		
<ul style="list-style-type: none"> Establish plans to determine priorities based on a risk assessment undertaken at least annually Report on significant risk exposures and control issues Ensure that resources are appropriate, sufficient, and effectively deployed 	<ul style="list-style-type: none"> Annual work plans completed Risk assessment framework adopted Informal OIOS-level risk assessments completed annually Annual report contained some references to risks facing the Organization 	<ul style="list-style-type: none"> Client-level risk assessments incomplete Risk assessment results not systematically incorporated into annual work plans No full report of risk and control issues No OIOS-wide mechanism for determining staffing needs
Proficiency and due professional care: Engagements should be performed with proficiency and due professional care		
<ul style="list-style-type: none"> Staff should possess the competencies needed to perform their responsibilities and should enhance them through continuing professional development Staff should apply the care and skill expected of a competent internal auditor 	<ul style="list-style-type: none"> Training available to OIOS staff Some external training completed by staff Annual training reports submitted to the Office of Human Resources Management 	<ul style="list-style-type: none"> No mandatory training curriculum Training not systematically tracked by management Lack of information technology expertise No systematic framework for assessing data reliability
Independence and objectivity: Internal auditors should be objective in performing their work		
<ul style="list-style-type: none"> Auditors should avoid conflicts of interest Impairments to independence, in fact or appearance, should be disclosed 	<ul style="list-style-type: none"> High-level UN staff (D-1 level and above) required to complete financial disclosure Compliance with UN staff rules and regulations required of all OIOS staff 	<ul style="list-style-type: none"> Majority of OIOS staff not required to complete financial disclosure Documentation of independence not required of all OIOS staff
Quality assurance: Develop and maintain a quality assurance program that includes internal and external quality assessments and ongoing internal monitoring		
<ul style="list-style-type: none"> Maintain a quality assurance and improvement program Conduct independent external assessments, such as quality assurance reviews, at least every 5 years 	<ul style="list-style-type: none"> Limited external reviews conducted by Board of Auditors and Joint Inspection Unit First external assessments (peer reviews) completed for two divisions, the Audit Division in Geneva and the Investigations Division Some quality assurance policies in place 	<ul style="list-style-type: none"> No external assessment conducted for Audit Division in New York or the Monitoring, Evaluation and Consulting Division Weaknesses in quality assurance processes noted by external reviewers
Monitoring progress: Establish and maintain a system to monitor the disposition of results communicated to management		
<ul style="list-style-type: none"> Establish a follow-up process to monitor and ensure that management actions have been effectively implemented, or that senior management has accepted the risk of not taking action 	<ul style="list-style-type: none"> Recommendations tracked by division Divisions’ data on recommendations compiled and reported semi-annually Consolidated tracking system developed Committee to follow up on oversight recommendations proposed 	<ul style="list-style-type: none"> A committee established to follow up on oversight recommendations has not yet met

Source: GAO based on IIA and OIOS data.

OIOS Has Developed Annual Work Plans but Has Not Fully Implemented a Risk Management Framework

IIA Standards for

Managing the internal audit activity – planning

- Establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals
- Plan of engagements should be based on a risk assessment undertaken at least annually

Source: IIA.

OIOS has adopted a risk management framework²⁴ to link the office's annual work plans to risk-based priorities, but it has not fully implemented this framework. Thus, OIOS cannot provide reasonable assurance that its annual work plans give the highest priority to the highest-risk audits. OIOS began implementing a risk management framework in 2001 to enable the office to prioritize the allocation of resources to oversee those areas that have the greatest exposure to fraud, waste, and abuse. OIOS's risk management framework includes plans for organization-wide risk assessments, to categorize and prioritize risks facing the organization, and client-level risk assessments, to identify and prioritize risk areas facing each entity for which OIOS has oversight authority.²⁵ According to OIOS officials, the annual work planning process included discussions of the work that OIOS would undertake and identified 31 risk areas for prioritizing its work. In addition, OIOS officials stated that they consider program budget size, time elapsed since the last audit, number of staff, and risks to the UN's reputation if fraud and waste go undetected when deciding which audits to perform. Although OIOS's framework includes plans to perform client-level risk assessments,²⁶ as of April 2006, out of 25 entities that comprise major elements of its oversight universe, three risk assessments had been completed, three were in progress, and four more are planned for 2006.

In practice, however, OIOS annual work plans are not fully based on the risk assessments it has completed or called for in its risk management framework. OIOS officials stated that the office does not systematically rank audit proposals in the annual work plan by risk level or weight more

²⁴OIOS defines risk management as the systematic approach to identifying, assessing, and acting on the probability that an event or action may adversely affect the organization. Risk management entails identifying and assessing past problems, current challenges, and overarching trends that could threaten the organization's activities, assets, and reputation.

²⁵The Monitoring, Evaluation, and Consulting Division does not currently perform systematic risk assessments. Because all of the evaluation unit's work is mandated by the General Assembly, a division official said that they do not need to set risk-based priorities. The official stated that the division managers discuss potential risk areas informally and present a list of such areas to the General Assembly from which to request OIOS evaluations.

²⁶According to OIOS officials, OIOS plans to work jointly with each client to identify and rank areas where the client is potentially vulnerable to fraud, waste, or abuse. This process is called client-level risk assessment.

significant risk factors.²⁷ The office's 2005 annual report stated that 70 percent of its work was risk-based. However, OIOS officials stated that this estimate includes a number of oversight activities that have risk areas assigned to them retroactively (instead of during the preliminary planning process). OIOS officials told us they plan to assign risk areas more consistently to audits proposed in their annual work plan during the planning phase so that, by 2008, at least 50 percent of their work is based on a systematic risk assessment. As a result, OIOS officials cannot provide reasonable assurance that the entities they choose to examine are those that pose the highest risk, nor that their audit coverage of a client focuses on the areas of risk facing that client.

OIOS Not Reporting on Status of Overall Risk and Control Issues Facing the UN

IIA Standard for

Managing the internal audit activity – reporting to senior management

Reporting should include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by senior management

Source: IIA.

Although OIOS's annual reports contain references to risks facing OIOS and the UN organization, the reports do not provide an overall assessment of the status of these risks or the consequence to the organization if the risks are not addressed. For instance, in February 2005, the IIC reported that many of the Oil for Food program's deficiencies, identified through OIOS audits, were not described in the OIOS annual reports submitted to the General Assembly. A senior OIOS official stated that the office does not have an annual report to assess UN-wide risks and controls and that such an assessment does not belong in OIOS's annual report in its current form, which focuses largely on the activities of OIOS. The official agreed that OIOS should communicate to senior management on areas where the office has not been able to examine significant risk and control issues, but that the General Assembly would have to determine the appropriate vehicle for such a new reporting requirement.

²⁷Officials from the Investigations Division said they give incoming cases a risk score and prioritize their work by ranking the scores. Because we did not have access to the division's internal documents, however, we could not independently assess how effectively the division has implemented its risk assessments.

OIOS Lacks a Mechanism to Determine Appropriate Resource Levels

IIA Standard for

Managing the internal audit activity – resource management

Ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan

Source: IIA.

While OIOS officials have stated that the office does not have adequate resources, they do not have a mechanism in place to determine appropriate staffing levels to help justify budget requests, except for peacekeeping oversight services. For peacekeeping audit services, OIOS does have a metric—endorsed by the General Assembly—that provides one professional auditor for every \$100 million in the annual peacekeeping budget. Although OIOS has succeeded in justifying increases for peacekeeping oversight services consistent with the large increase in the peacekeeping budget since 1994, it has been difficult to support staff increases in oversight areas that lack a comparable metric, according to OIOS officials.

OIOS Offers Training Opportunities but Does Not Require or Systematically Track Continuing Professional Development

IIA Standard for

Proficiency – continuing professional development

Internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development

Source: IIA.

OIOS staff have opportunities for training and other professional development, and OIOS officials said that they encourage staff to seek training and professional certifications. UN personnel records show that OIOS staff took more than 400 training courses offered by the Office of Human Resources Management in 2005. Further, an OIOS official said that, since 2004, OIOS has subscribed to IIA's online training service that offers more than 100 courses that are applicable to auditors. According to the official, the service tracks all courses completed (and who completed them), making this information available to OIOS management. Since subscribing, 49 OIOS staff have completed and passed a total of almost 200 online IIA courses. OIOS officials reported that they encourage staff to seek professional certifications such as Certified Internal Auditor, for example, by reimbursing the costs of course materials for those who certify. According to an OIOS official, about 80 percent of the auditors from the Geneva division have current professional certifications.²⁸

Despite these professional development opportunities, OIOS does not formally require staff training, nor does it systematically track training to provide reasonable assurance that all staff are maintaining and acquiring professional skills. OIOS policy manuals list no minimum training requirement. OIOS officials stated that, although they gather some information on their use of training funds for their annual training report to the UN Office of Human Resources Management, they do not maintain an

²⁸Data were not available for the remaining divisions in New York and Vienna.

officewide database to systematically track all training their staff has taken. The 2005 training report, for example, lists about 50 different training courses and conferences attended by OIOS staff members. However, the report also shows that the Monitoring, Evaluation, and Consulting Division used 30 times more OIOS training funds than the Investigations Division, even though the Investigations Division has more than 5 times as many staff. Therefore, it is difficult to assess whether all OIOS staff are getting training and other professional development opportunities to maintain or acquire the skills needed to perform the oversight duties to which they are assigned. Board of Auditors' reviews, for example, have noted a lack of information technology expertise in OIOS.

OIOS Has No Guidance or Systematic Framework for Assessing Data Reliability

IIA Standard for

Due professional care

Exercise due professional care by considering, among other things, the probability of significant errors, irregularities, or noncompliance

Source: IIA.

Although OIOS uses program data in its oversight activities, it has not developed guidance or a framework to help its staff determine the reliability of the data it uses to support the findings and recommendations in its reports. OIOS division manuals do not provide guidance on data reliability checks. OIOS officials stated that they expect staff to use professional judgment in determining which data to use to support their findings, but that they do not require them to document that they have determined the data to be sufficiently reliable. The Board of Auditors reported that OIOS's auditors routinely use field missions' applications and databases as part of their audits, particularly in the areas of asset control, financial management, and procurement and that OIOS noted that their capacity to perform information technology audits was not sufficient. Computer-processed data require a more technical assessment than other forms of evidence and the very nature of information systems allows opportunities for errors to be introduced by many people. Unreliable data are a significant risk because key management decisions may be based on the information that these automated systems generate. However, because OIOS does not have systematic guidance or a framework on data reliability, it cannot provide reasonable assurance that data reliability assessments are risk-based and geared to the specific circumstances of the audit.

Most OIOS Staff Are Not Required to Submit Independence and Financial Disclosure Statements

IIA Standards for

Individual objectivity and impairments to independence or objectivity

- Internal auditors should have an impartial, unbiased attitude and avoid conflicts of interest
- If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties

Source: IIA.

OIOS does not require all staff to attest to their independence and, in OIOS, only the Under Secretary-General and senior managers are required to complete an annual financial disclosure statement. All UN staff are expected to follow UN staff rules and regulations, but OIOS has no office-wide policy for documenting that oversight staff are free from impairment to their independence. Only the Investigations Division requires its staff to sign a statement of independence, which OIOS officials said is kept in personnel files. According to a UN official, the UN ethics policy was recently changed to require approximately 1,000 UN staff at the D-1 level and above²⁹ to submit financial disclosures, but it still does not include staff-level employees in OIOS.³⁰ OIOS officials stated that, in the absence of official statements of independence, they rely on individuals to voluntarily report potential conflicts of interest when they are assigned to work on a specific audit or investigation.

²⁹D-1 level and above are senior-level positions such as those of a division head or policy making positions equivalent to the Assistant Secretary-General and Under Secretary-General levels.

³⁰OIOS supported the creation of a UN Ethics Office, which was established in January 2006 to process financial disclosures, among other things. OIOS has no enforcement authority over ethics violations.

OIOS Has Key Quality Assurance Measures, but Work Remains to Meet International Standards

IIA Standards for

Quality assurance

- Develop and maintain a quality assurance and improvement program
- External assessments such as quality assurance reviews should be conducted at least once every 5 years by an independent reviewer or review team from outside the organization

Source: IIA.

OIOS has some quality assurance policies and processes in place, but external reviews of OIOS have revealed weaknesses. We found that all OIOS divisions have an internal report review process as a quality check before their reports are sent to the General Assembly. In addition, the Internal Audit Division in New York has a checklist for draft reports that requires supervisors to document when quality assurance processes are completed; and the Internal Audit Division manual contains a chapter devoted to quality assurance policies and procedures.

Although periodic external reviews required by the IIA could provide reasonable assurance of the quality of OIOS's work, two out of four OIOS divisions have not undergone an external review since its inception in 1994. Although not required to follow IIA standards, the Investigations Division was reviewed in 2004 by a team from the European Anti-Fraud Office on the occasion of OIOS's 10th anniversary.³¹ The Internal Audit Division in Geneva became the second division to undergo an external review. The final report of the team, led by the chief auditor of the UN Children's Fund, was released to OIOS management in December 2005. The Internal Audit Division in New York and the Monitoring, Evaluation, and Consulting Division have not undergone an external review. Audit officials in New York said they must complete an external review by January 2007 in order for the Internal Audit Division to continue reporting that its work complies with IIA standards.³² The external oversight bodies of the UN—the Joint Inspection Unit and Board of Auditors—have never fully reviewed OIOS's quality assurance framework. Both have reviewed some elements of the office's management practices, but officials representing both bodies said that a full and regular external review of OIOS's quality assurance framework is outside their mandates and would not be feasible with their limited resources. Without a comprehensive external review by bodies with access to OIOS internal documents and staff, it is difficult to fully assess OIOS's compliance with IIA quality assurance standards.

³¹ Although the Investigations Division does not follow a specific set of international standards, a division official stated that OIOS investigators must adhere to the Uniform Guidelines for Investigations adopted at the Fourth Conference of International Investigators in Brussels in 2003.

³² In March 2002, OIOS formally adopted the IIA standards, which according to an OIOS official, went into effect in January 2002. To attest its compliance with IIA standards, OIOS must complete an external review by a qualified, independent reviewer by January 2007, the 5-year point. Internal Audit Division officials in New York said that they plan to finalize the quality assessment required by IIA by the end of December 2006.

External reviews of OIOS have also found weaknesses limiting OIOS's ability to provide reasonable assurance as to the quality of its work. The Board of Auditors has noted that OIOS work papers show inconsistent documentation of supervisory review, and that OIOS lacks expertise to assess the effectiveness of client information and communications technology. In this regard, an OIOS official said a vacancy announcement for an Information and Communications Technology Auditor has recently been issued, and the announcements for two more are planned. The European Anti-Fraud Office³³ reported that some sampled files³⁴ from the Investigations Division had incomplete interview records, work plans, and documentation regarding the results of recommendations made or proposed follow-up. The peer review team for the Internal Audit Division in Geneva reported on deficiencies in supervisory reviews and some other aspects of documenting their work. In response to the report, the head of the division issued instructions requiring supervisors to complete a working paper confirmation form to ensure working papers were completed and organized in a manner that could be easily reviewed by someone independent of the audit assignment.

³³The European Anti-Fraud Office, based in Brussels, is an organization whose stated purpose is to protect the interests of the European Union and to fight fraud, corruption, misconduct, and any other irregular activity within European institutions.

³⁴The European Anti-Fraud Office sampled 40 closed cases from 1999-2004, representative of subject areas and geographic regions.

OIOS Has a Process to Regularly Monitor Disposition of Recommendations

IIA Standards for

Monitoring progress

- Establish and maintain a system to monitor the disposition of results communicated to management
- Establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action

Source: IIA.

OIOS has a process in place that tracks and reports on the status of its recommendations. The recommendations from each of OIOS's four divisions are consolidated into one database that is updated formally twice per year—once to prepare the annual report in September, and once in January for the semi-annual report on open recommendations to the Secretary-General. According to OIOS officials, OIOS has been tracking recommendations in various databases since at least 1997, and OIOS's four divisions have seven separate databases to record and track recommendations. OIOS has recognized the need for a single system and on April 1, 2006, launched an automated recommendation tracking system. The system will be able to record, track, and monitor recommendations data for each OIOS division. OIOS officials stated that in the future, the system will allow online interaction and communication with OIOS clients for reporting the status of recommendations, rather than the current process of sending electronic files to clients to obtain the status of recommendations.

Although OIOS reports that about 80 percent of its recommendations from 2001 to 2005 have been implemented, some of its critical recommendations—including those made to high-risk areas such as procurement, the Department of Peacekeeping Operations, the UN Office at Nairobi, and the UN Interim Administration Mission in Kosovo—have not yet started, or were not fully implemented by audited entities as of June 2005.³⁵ For example, the implementation of three recommendations from a report on the Economic Commission for Africa's procurement and inventory store management issued in 2001-2002 are still in progress. According to OIOS, the UN Office in Nairobi has not fully implemented a critical recommendation issued in a report between 2001 and 2002 on contracting and procurement services; neither has it begun to address a critical recommendation issued in 2002-2003 regarding alleged procurement irregularities in awarding a UN staff transportation contract. According to OIOS officials, although they have noted a generally positive

³⁵From July 2001 to June 2005, OIOS issued 8,344 recommendations, of which 2,773 were "critical." About 74 percent of the total critical recommendations have been implemented. This total does not include about 1,800 recommendations that were withdrawn. According to OIOS, recommendations may be withdrawn for a variety of reasons. For example, (1) the client may give valid arguments as to why the recommendation cannot be implemented, e.g., the investment outweighs the benefit; (2) after further follow-up with the client it was determined that there was a factual error or misunderstanding by OIOS; and (3) the client or the situation leading to the recommendation no longer exists, for example, in the case of a peacekeeping mission closure.

trend in implementing recommendations more expeditiously, they are not entirely satisfied with the situation. Several recommendations, some of which are critical, have remained open for up to 6 years. As a result, OIOS proposed and the General Assembly concurred that a high-level mechanism be established to address, among other things, the implementation of recommendations.³⁶

In September 2005, the Secretary-General endorsed the establishment of a high-level committee to ensure, among other things, proper implementation of all oversight recommendations—including those made by OIOS, the Board of Auditors, and the Joint Inspection Unit.³⁷ The oversight committee is to provide independent advice to the Secretary-General on all Secretariat activities relating to internal and external oversight and investigations, including internal controls and the monitoring of corrective actions recommended by internal and external auditors. However, the committee had not convened as of March 2006. In addition, the Department of Management is in the process of considering a management control tracking system, which is expected to be operational within a year. According to a Department of Management official, this system will have the capacity to interface with the new recommendations tracking system that OIOS is implementing. In addition, the official stated that the department does not currently prepare statistics on implementation rates of recommendations since this responsibility is assigned to the oversight bodies; however, with the new monitoring system, the department would be able to provide these statistics.

³⁶G. A. Res. 59/272, U.N. GAOR, 59th Sess., U.N. Doc. A/RES/59/272, at para. 10 (2005).

³⁷*Oversight Committee: Secretary-General's Bulletin*, U.N. Doc. ST/SGB/2005/18, at para. 1.1.

UN Oversight Entities Undertake Activities to Coordinate Efforts but Do Not Provide Reasonable Assurance for a Comprehensive Approach to Oversight

UN oversight entities have undertaken a number of activities to coordinate efforts, but these activities are not geared toward ensuring a comprehensive approach to oversight or minimizing duplication of effort. No single entity in the UN oversight community is clearly responsible for identifying gaps in oversight, identifying opportunities to avoid unnecessary duplication of effort, or leveraging the resources of the UN oversight community. Although several forums have been established to foster coordination, these forums are aimed at sharing information and best practices, rather than focusing on joint activities that could minimize duplication and leverage resources. While it is not a common practice, some UN oversight entities made efforts to collaborate. The Joint Inspection Unit, Board of Auditors, and OIOS share annual work plans and reports; however, these practices do not apply to the internal oversight entities of the separately administered UN funds, programs, and specialized agencies. These separately administered entities represent a significant part of UN activities, and report to their own respective governing bodies.

UN Resolutions Call for Coordinating Efforts to Ensure Comprehensive Approach to Oversight

Although the General Assembly and many member states have emphasized the importance of coordination among UN oversight entities to ensure a comprehensive approach, avoid unnecessary duplication, and leverage resources, the General Assembly does not clearly designate responsibility for this effort. In this regard, when OIOS was established in 1994, the Secretary-General issued a bulletin directing the office to coordinate with the Board of Auditors, the Panel of External Auditors, and the Joint Inspection Unit; and to maintain a close working relationship with other inspection and internal audit offices in the UN system.³⁸ More recently, the General Assembly passed a resolution reaffirming the importance of effective coordination between the Joint Inspection Unit, the Board of Auditors, and OIOS. This resolution aimed to maximize the use of resources, and to share experiences, knowledge, best practices, and lessons learned.³⁹ Similarly, member states have also encouraged the Joint Inspection Unit, the Board of Auditors, and OIOS to continue working together to ensure greater coordination and avoid duplication. Toward this end, the Joint Inspection Unit—the only independent external oversight

³⁸*Establishment of the Office of Internal Oversight Services: Secretary-General's Bulletin*, U.N. Doc. ST/SGB/273, at para. 5.

³⁹G. A. Res. 59/272, U.N. GAOR, 59th Sess., U.N. Doc. A/RES/59/272, at para. 12 (2005).

body whose authority includes the specialized agencies—recently completed a report that calls upon internal and external oversight entities within the UN system to provide effective coordination and cooperation with each other to avoid duplication and ensure leveraging resources.⁴⁰ However, the report has not yet been reviewed or endorsed by the General Assembly.

Responsibility for Ensuring a Comprehensive Approach and Minimizing Duplication Is Unclear

Notwithstanding these calls for coordination, OIOS's ability to coordinate is limited. Its authority does not extend to specialized agencies; in practice, coordination activities among the entities overseeing funds and programs are geared toward sharing information—not toward ensuring comprehensive oversight or avoiding duplication. The Board of Auditors' authority also does not extend to specialized agencies and is limited to the UN organizations that have a direct reporting relationship to the Secretary-General. The Joint Inspection Unit has systemwide authority, but is not required to track the work performed by the various UN oversight entities. Thus, no one entity in the UN oversight community is charged with the responsibility of tracking the work performed by all the oversight entities for the purpose of ensuring a comprehensive approach to oversight. Without clear designation of this responsibility, it is not possible to ascertain whether there are any gaps in oversight coverage, identify opportunities to avoid unnecessary duplication of efforts, or leverage the resources of the UN oversight community. This is of particular concern given the limited resources of some of these entities. (See app. V for a summary of the resources of selected UN oversight entities.)

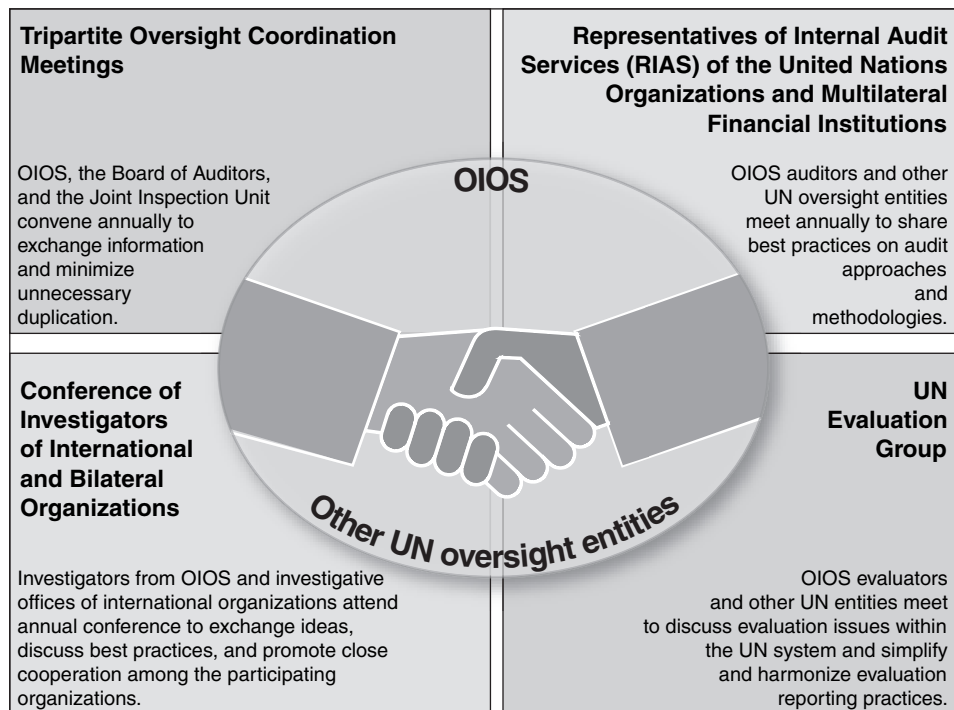
Several Forums Provide Venues for Information Exchange among UN Oversight Entities

Several forums to coordinate efforts have been established, and OIOS participates in these venues (see fig. 6). However, despite calls for coordination, the existing forums that are meant to foster coordination do not optimize opportunities for collaboration to achieve these purposes. Rather, these forums provide opportunities to share information and best practices on oversight approaches and methodologies. Specifically, in the annual tripartite oversight coordination meetings that began in November 1997, representatives of OIOS, the Board of Auditors, and the Joint Inspection Unit convene to exchange information and minimize duplication. In addition, since 1969, an interagency organization of internal

⁴⁰Joint Inspection Unit, *Oversight Lacunae in the United Nations System*, JIU/REP/2006/2.

auditors—the Representatives of Internal Audit Services (RIAS) of the United Nations Organizations and Multilateral Financial Institutions—has met annually to share best practices on audit approaches and methodologies. Similarly, a counterpart organization organized in 1998 for investigators—the Conference of Investigators of International Institutions and Bilateral Organizations—meets annually to exchange ideas, foster best practices, and encourage cooperation among the investigative offices of the participating organizations. Also, the UN Evaluation Group—a forum for the discussion of evaluation issues within the UN system—aims to simplify and harmonize evaluation reporting practices; OIOS noted that the UN Evaluation Group has developed norms and standards for evaluation in the UN system, as well as core competencies for UN evaluators.

Figure 6: Key Forums to Facilitate Coordination among UN Oversight Entities



Source: GAO based on UN data.

Joint Efforts to Collaborate and Share Annual Work Plans and Reports Are Limited

While it is not a common practice, UN officials stated that some UN oversight entities made efforts to collaborate. A prime example of this took place during the recent UN tsunami relief efforts. In an April 2005 report to the Secretary-General, OIOS investigators issued an assessment of the risks and opportunities for corruption and waste associated with weak coordination, rushed procurement and recruitment decisions, and the size of the funding. According to OIOS, the assessment was the result of collaborative efforts between OIOS and the investigative offices of the UN Children's Fund, UN Development Program, UN High Commissioner for Refugees, and the World Food Program; as well as the Anti-Fraud Office of the European Commission, the Asian Development Bank, and the World Bank.

The Joint Inspection Unit, the Board of Auditors, and OIOS do share annual work plans—tools that could help identify gaps in oversight coverage and avoid unnecessary duplication. Also, in December 1999, the General Assembly passed a resolution that required OIOS to provide copies of all reports to the Joint Inspection Unit and the Board of Auditors; it also requested that reports be made available within 1 month of being finalized and emphasized the need for comments as appropriate.⁴¹ However, the practice of sharing work plans and the requirement to share reports do not apply to the internal oversight entities of the separately administered UN funds, programs, and specialized agencies; these entities represent a significant part of UN activities and report to their own respective governing bodies. In September 2005, the IIC report on the management of the UN Oil for Food program stated that the UN's disjointed and sometimes-overlapping approach to oversight left a number of contentious issues about the program unresolved. According to IIC, UN oversight agencies resisted sharing their audit reports, which could have facilitated coordination. OIOS officials told us that UN oversight agencies have subsequently begun to share lessons learned from the Oil for Food experience and have made a concerted effort to apply these lessons to the UN's tsunami relief efforts.

⁴¹OIOS officials stated that the internal audit divisions provide all final audit reports to the Board of Auditors when they are forwarded to management; final audit reports are not routinely forwarded to the Joint Inspection Unit, although reports are provided upon request. Investigation reports are not routinely provided. According to these officials, some evaluation and inspection reports are shared with the Joint Inspection Unit but rarely with the Board of Auditors.

U.S. Prioritizes Efforts to Strengthen UN Internal Oversight, but Influence Is Limited by a Key Vacancy at the U.S. Mission to the UN

The United States has made it a priority to advance UN reforms to strengthen internal oversight. As part of U.S. efforts to reform UN management, the U.S. Mission has adopted a multi-faceted approach to creating a culture of transparency, accountability, and efficiency. Among other things, the U.S. strategy for UN reform includes measures to strengthen the independence of the OIOS, enhance internal oversight of peacekeeping missions, outsource internal oversight at small UN agencies to OIOS, reinforce the Secretary-General's duty to waive immunity, and avoid even the appearance of conflict of interest.

The United States played a major role in influencing the General Assembly to pass a resolution allowing all member states access to OIOS audit reports, upon request, according to OIOS and U.S. Mission officials.⁴² The U.S. Mission to the UN in New York, which has a UN Management and Reform unit, regularly participates in deliberations of the Fifth Committee and other bodies to promote efforts to strengthen UN oversight. In January 2006, for example, the U.S. Ambassador to the UN spoke to the press about the need for oversight reform in the wake of the recent procurement scandals. Another senior official released a statement to the General Assembly in late December 2005 regarding the need to limit spending until progress is made toward implementing reforms agreed to during the September 2005 World Summit. Also, the representative of the U.S. Mission to UN Organizations in Geneva co-chairs the Geneva Group Focal Group on Oversight that is completing an overview of internal oversight in the UN agencies, and plans to issue its report in fall 2006.⁴³

Staffing at the U.S. Mission to the UN in New York may have limited U.S. influence in encouraging and formulating proposals for UN oversight reform. The position of U.S. Representative for UN Management and Reform was vacant from February 2005 until it was filled in 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 upon at the World Summit in 2005. As

⁴²G. A. Res. 59/272, U.N. GAOR, 59th Sess., U.N. Doc. A/RES/59/272, at para. 1(c) (2005).

⁴³The focal group, which includes representatives from 14 countries, is part of the Geneva Group. Formed in 1964, the Geneva Group comprises major financial contributors whose goal is to influence management improvement in UN specialized agencies.

a result, officials said, the U.S. Mission had limited capacity to influence reform.

Conclusion

Although OIOS has a mandate establishing it as an independent oversight entity—and OIOS does possess many characteristics consistent with independence—the office does not have the budgetary independence it requires to carry out its responsibilities effectively. Over the years, UN funding arrangements for OIOS have eroded the office’s ability to conduct independent oversight. The office’s ability to conduct audits and respond to changing priorities based on developing risks have been impeded, raising serious questions about its independence. To perform effective oversight, OIOS must have budgetary independence, but it must also fully implement the management processes and auditing practices that would help it best exercise that independence. Notwithstanding funding impediments to OIOS’s budgetary independence, OIOS officials cannot make most effective use of the office’s resources and independent authority to choose its work because they have not fully implemented a risk management framework that provides reasonable assurance that the most critical work is given highest priority. Moreover, OIOS’s shortcomings in meeting key components of international auditing standards undermine the office’s effectiveness in carrying out its functions as the UN’s main internal oversight body. Further, the lack of coordination between UN oversight bodies hinders a comprehensive approach to oversight, which could minimize duplication and leverage the use of available resources. Effective oversight demands budgetary independence, sufficient resources, adherence to professional auditing standards, and coordination. OIOS is now at a critical point, particularly given the initiatives to strengthen UN oversight launched as a result of the World Summit in fall 2005. In moving forward, the degree to which the UN and OIOS embraces international auditing standards and practices will indicate the institution’s commitment to addressing the monumental management and oversight tasks that lie ahead. The failure to address these long-standing concerns would diminish the efficacy and impact of other management reforms to strengthen oversight at the UN.

Recommendations for Executive Action

To provide reasonable assurance of independent, effective oversight in the United Nations, we recommend that the Secretary of State and the Permanent Representative of the United States to the United Nations work with member states to support budgetary independence for OIOS and

OIOS's efforts to more closely adhere to international auditing standards, including measures to

- ensure reliable funding arrangements for OIOS that do not undermine the independence of OIOS and provide it with sufficient resources that it can effectively reallocate and deploy as may be necessary to meet high-risk areas as they arise;
- complete the implementation of OIOS's risk management framework to ensure that its annual work plans address those areas that pose the highest risks;
- report to the General Assembly on the status of significant risks and control issues facing the UN organization, the resources necessary to address these issues, and the consequences to the organization if any risks and control weaknesses are not addressed;
- develop a workforce planning methodology to systematically assess and determine appropriate staffing levels for the office;
- institute a mandatory training curriculum for OIOS professional staff, including auditors and investigators;
- establish guidance and procedures for assessing the reliability of data used in support of significant findings in OIOS reports; and
- require all OIOS professional staff to file statements of independence and financial disclosures; institute procedures to adequately review such statements.

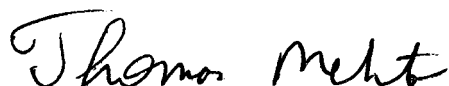
Agency Comments and Our Evaluation

OIOS and State provided written comments on a draft of this report, which are reproduced in appendixes VI and VII, respectively. OIOS and State agreed with our overall conclusions and recommendations. OIOS stated that observations made in the report were consistent with OIOS's internal assessments and external peer reviews. State fully agreed with our finding that UN member states need to ensure that OIOS has budgetary independence. However, State does not believe that multiple funding sources have impeded OIOS's budgetary flexibility. We found that current UN financial regulations and rules are very restrictive, severely limiting the ability to reallocate funds across revenue streams to emerging or high-priority areas when they arise. OIOS and State also reviewed a draft of this

report for technical accuracy. We incorporated their technical comments and updates throughout the report, as appropriate.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days after the date of this report. We are sending copies of this report to 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 VIII.



Thomas Melito
Director, International Affairs and Trade

Scope and Methodology

Our objectives were to review (1) the extent to which United Nations (UN) funding arrangements for the Office of Internal Oversight Services (OIOS) ensure independent oversight, (2) the consistency of OIOS practices with key international auditing standards, (3) coordination among UN oversight entities to ensure a comprehensive approach to oversight, and (4) U.S. government efforts to advance UN reforms to strengthen internal oversight. In addition, as requested, we are providing information on the budget and staff resources of selected UN oversight entities.

To examine the extent to which UN funding arrangements ensure independent oversight, we reviewed relevant UN and OIOS reports, manuals, and numerous program documents. We met with senior Department of State (State) officials in Washington, D.C., and senior officials with the U.S. Missions to the UN in New York, Vienna, and Geneva. At these locations, we also met with UN and OIOS management officials and staff. To assess the reliability of UN and OIOS funding and staffing data, we reviewed the office's budget reports for fiscal bienniums 1996-1997 to 2006-2007 and discussed the data with relevant officials. We determined that the funding and staffing data were sufficiently reliable for the purposes of this report.

To assess OIOS's consistency with key international auditing standards, we reviewed relevant internationally accepted standards for oversight such as those issued by the Institute for Internal Auditors (IIA) and the International Organization of Supreme Auditing Institutions (INTOSAI). The IIA standards apply to internal audit activities—not to investigations, monitoring, evaluation, and inspection activities. However, we applied these standards OIOS-wide, as appropriate, in the absence of international standards for non-audit oversight activities. We examined documentation for the office's strategic planning and annual work plans; risk management framework; quality assurance; recommendations tracking; and ethics practices to assess the extent to which OIOS's practices in these areas were consistent with IIA standards, which OIOS has adopted. Because we had limited access to certain key documentation, OIOS officials agreed to "walk us through" their annual plans and external peer review reports. We met with OIOS management officials and staff in each of the office's divisions, including the executive office; the Internal Audit Divisions I and II in New York and Geneva; the Investigations Division in New York and Vienna; and the Monitoring, Evaluation, and Consulting Division in New York. We discussed OIOS's process for monitoring and reporting on its recommendations with relevant officials. In most instances, OIOS officials informed us that the data they track to report on the status of their

recommendations are reliable. The officials added that they would like to perform more testing of the recommendations that have been implemented, but lack the resources to do so. We obtained the recommendations database from OIOS and performed basic reliability checks. We determined the data were sufficiently reliable for the purposes of this report.

To review coordination among UN oversight entities, we reviewed UN documents and reports relating to the mandates, resources, and activities of the oversight entities of selected UN funds and programs, specialized agencies, and other UN entities. We met with representatives of several of these entities, including the International Atomic Energy Agency; International Labor Organization; International Telecommunication Union; UN Children's Fund; UN Development Program; UN Educational, Scientific, and Cultural Organization; UN High Commissioner for Refugees; UN Industrial Development Organization; UN Training Institute; World Health Organization; World Intellectual Property Organization; and the World Meteorological Organization. We also met with the UN external auditors—the Board of Auditors in New York, and the Joint Inspection Unit in Geneva.

To review U.S. government efforts to advance UN reforms to strengthen internal oversight, we reviewed State mission program plans, position statements, and various program documents. We also met with senior State officials in Washington, D.C., and senior officials with the U.S. Missions to the UN in New York, Geneva, and Vienna. In addition, we met with several representatives of the Geneva Group to obtain information on their efforts to strengthen oversight in the UN system and their views on UN reforms.

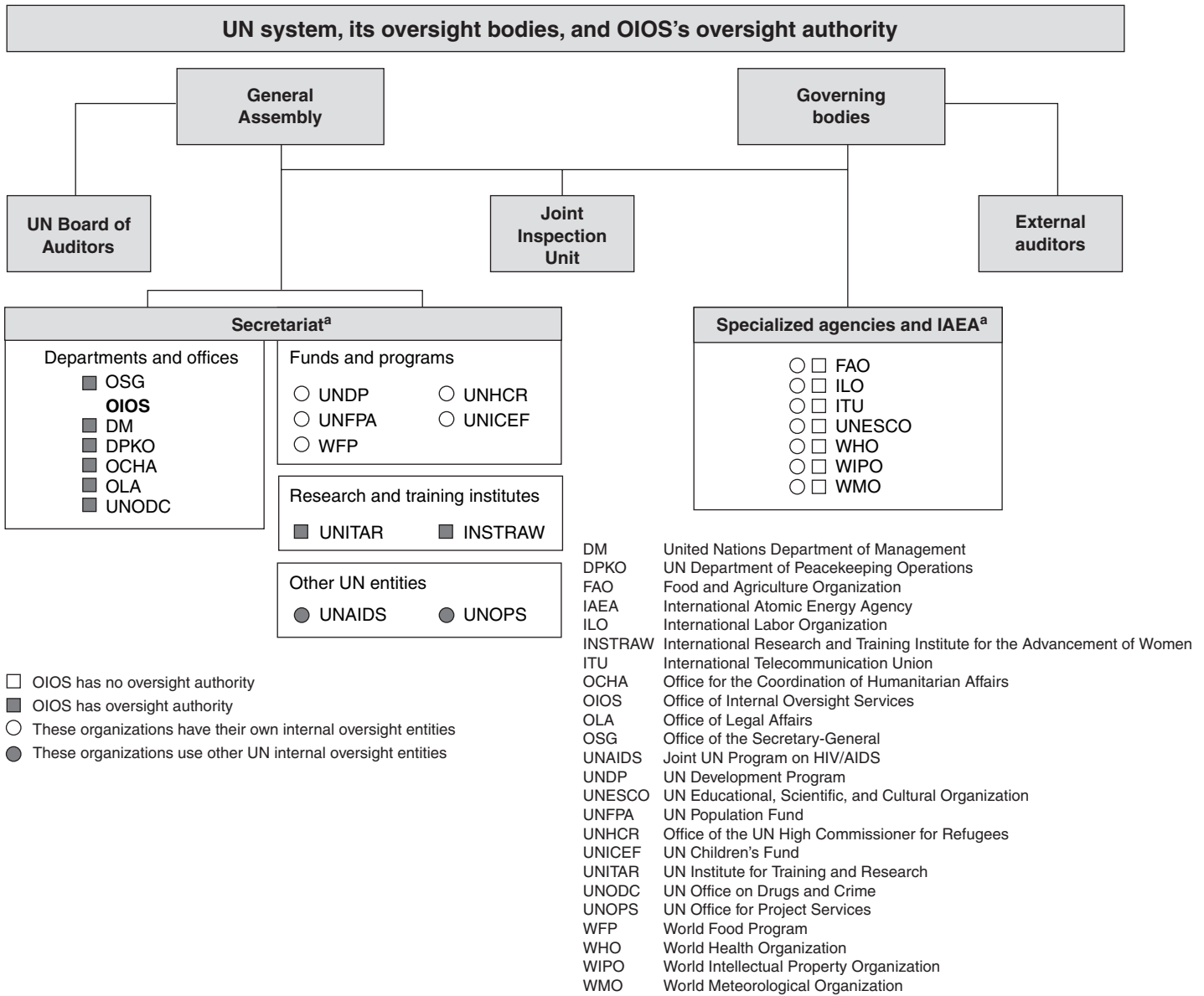
For information on the budget and staff resources of selected UN oversight entities, we used fiscal biennium 2004-2005 data for several entities that participated in a survey conducted by the Joint Inspection Unit, which provided us with an advance copy of the report completed in February 2006.¹ We determined the data to be sufficiently reliable for purposes of this report.

¹Joint Inspection Unit, *Oversight Lacunae in the United Nations System*, JIU/REP/2006/2. As of March 2006, JIU had sent the report for official editing and printing.

OIOS Oversight Authority

The UN organization and OIOS's oversight authority over selected UN entities is presented in figure 7. The diagram shows (1) those entities over which OIOS has oversight authority that do not have their own oversight units, such as departments and offices within the UN Secretariat; (2) funds and programs, such as the UN Children's Fund and the UN Development Program, that fall under OIOS's oversight authority but may use OIOS services only upon request because they have their own oversight units; and (3) the International Atomic Energy Agency and the specialized agencies, such as the International Labor Organization and the World Health Organization, some of which have their own oversight units and do not fall under OIOS's oversight authority.

Figure 7: UN Organizations and OIOS's Oversight Authority Over Selected Entities



Source: GAO based on UN data.

^aIncludes only selected UN organizations, not a complete listing.

OIOS Organizational Structure

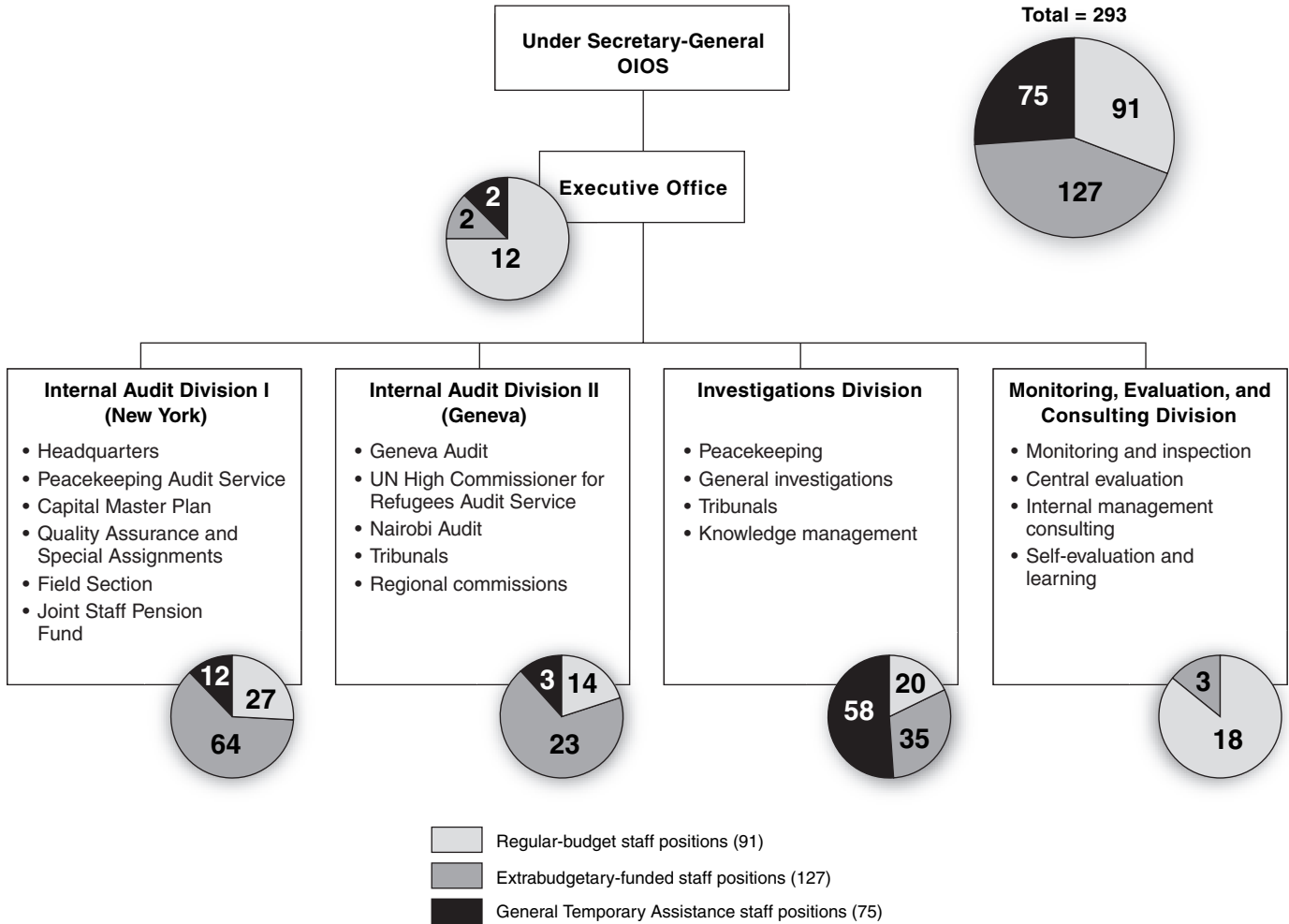
Based on the General Assembly approved 2006-2007 biennium budget, OIOS has a total of 293 funded staff positions in its executive office and operating divisions comprised of:

- the Office of the Under Secretary-General and the Executive Office, which has 16 staff positions (about 5 percent);
- Internal Audit Division I located in New York, which has 103 staff positions (about 35 percent);
- Internal Audit Division II in Geneva and several overseas locations, which has 40 staff positions (about 14 percent);
- Investigations Division in New York, Vienna, and several overseas locations, which has 113 staff positions (about 39 percent); and
- the Monitoring, Evaluation, and Consulting Division, which has 21 staff positions (about 7 percent).

As shown in figure 8, the majority of these staff positions are funded through extrabudgetary resources. As the General Assembly recently authorized, some extrabudgetary staff positions are for General Temporary Assistance, which provides OIOS with the flexibility to use funding to hire contractors as it deems necessary.

**Appendix III
OIOS Organizational Structure**

Figure 8: OIOS Organizational Structure and Number of Staff Positions by Division, Fiscal Biennium 2006-2007



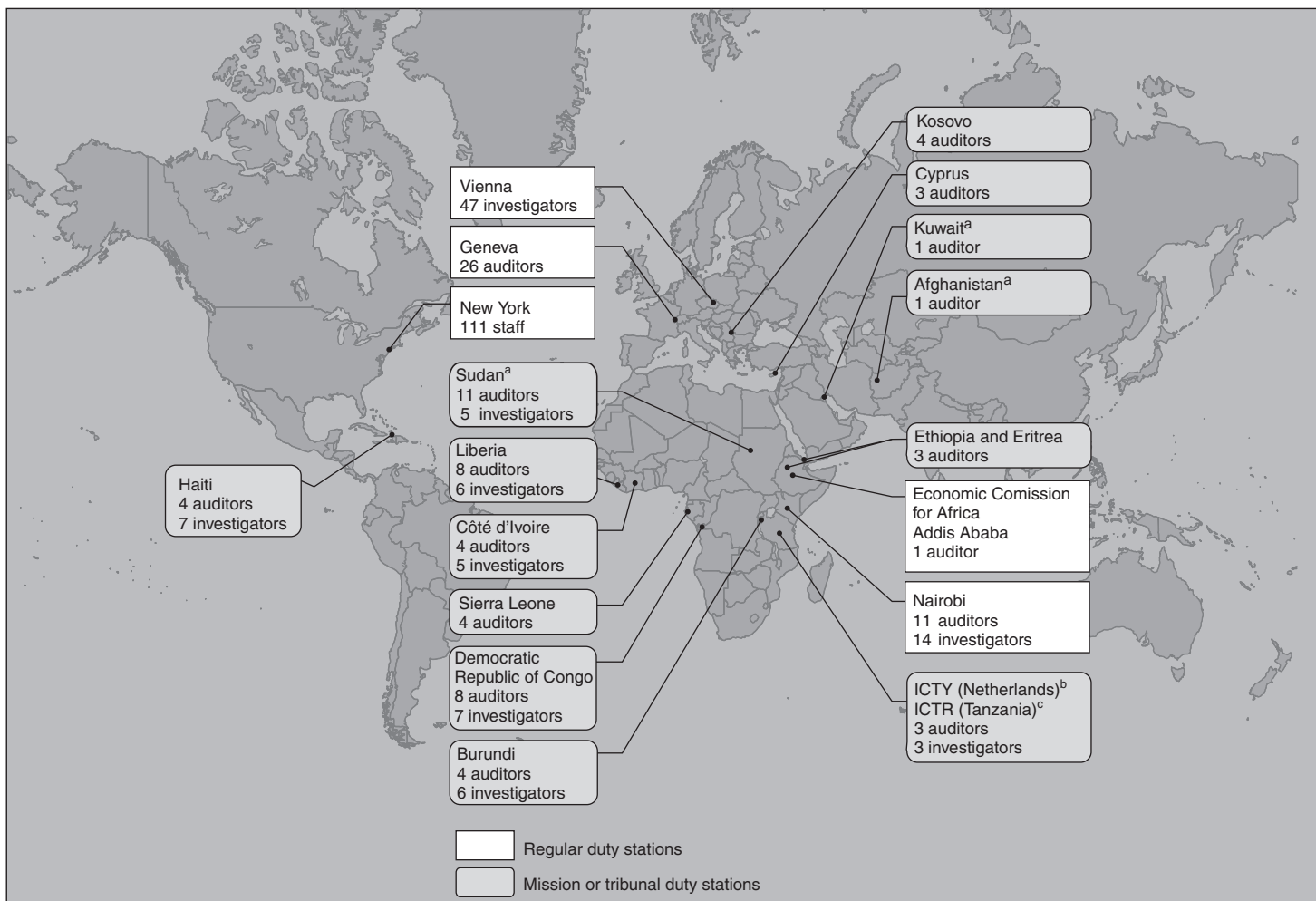
Source: GAO analysis based on OIOS data.

Note: The information shown reflects the number of staff positions as of January 31, 2006, including 39 General Temporary Assistance positions that the General Assembly approved for OIOS for fiscal biennium 2006-2007.

OIOS is located in numerous locations throughout the world. Figure 9 shows the number of staff positions at headquarters in New York and the field offices in Geneva, Vienna, Nairobi, and Addis Ababa, as well as duty stations for peacekeeping missions and tribunals.

**Appendix III
OIOS Organizational Structure**

Figure 9: OIOS Presence Worldwide as of January 31, 2006



Source: GAO based on OIOS data; Cartesia MapArt (map).

^aAudit staff positions in Addis Ababa, Afghanistan, Kuwait, and Sudan are not currently authorized and included in OIOS's account.

^bICTY is the International Criminal Tribunal for the former Yugoslavia.

^cICTR is the International Criminal Tribunal for Rwanda.

Process for Developing OIOS Budget

The process for developing the OIOS's regular budget is complex, involving several entities and multiple steps that begin about 16 months before the budget for a biennium goes into effect. Figure 10 illustrates the process involved in developing OIOS's regular budget for one biennium. OIOS divisions submit their regular and extrabudgetary proposals first to the executive office of OIOS, which may revise the requests either in line with OIOS priorities or pursuant to instructions from the UN Secretariat's Office of Program Planning, Budget, and Accounts (OPPBA). As shown in figure 10, the OIOS budget proposal is reviewed by the OPPBA, the Advisory Committee on Administrative and Budgetary Questions (ACABQ), and the Fifth Committee before it is approved by the General Assembly. As a comparison, the Board of Auditors submits its budget requests directly to the ACABQ; the Joint Inspection Unit submits its draft budget through the Chief Executives Board (CEB) to all participating organizations for comments, which are consolidated by the CEB before the budget proposal is submitted to the ACABQ.

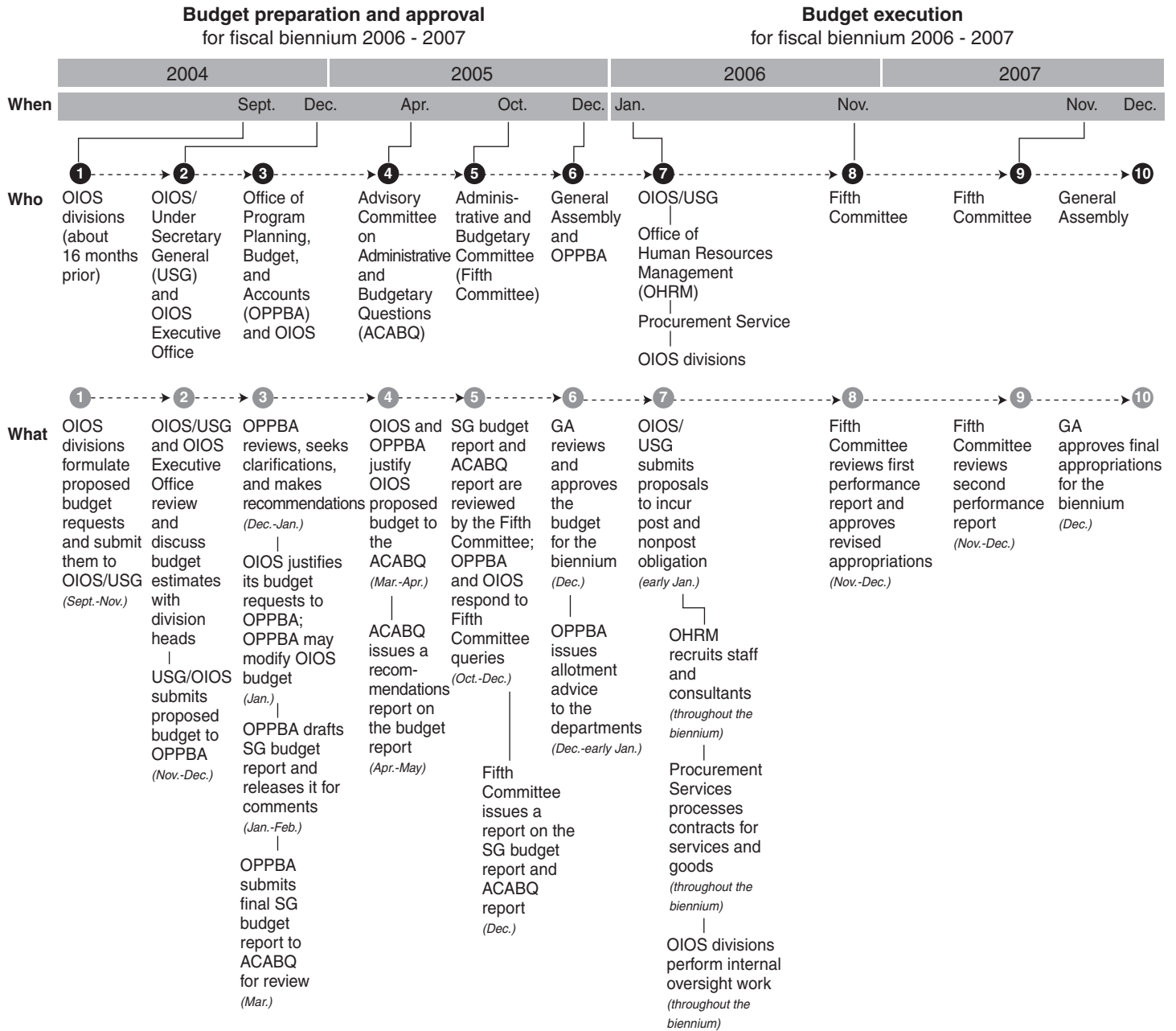
The budget office reviews OIOS's budget request to ensure that it conforms to the Secretary-General's established budget outline. The budget outline is the Secretary-General's preliminary estimate of UN Secretariat resource needs for the biennium, and it specifies OIOS's share of the total budget. For example, the budget outline for the 2006-2007 biennium was prepared in October 2004, and OIOS's preliminary estimate was \$23.2 million—the same amount as its 2004-2005 appropriation.¹ OIOS can negotiate any suggested changes to its budget proposal with the budget office. If OIOS does not agree with the modification to its budget, the Under Secretary-General of OIOS has the authority to discuss the office's concerns directly with the Secretary-General.²

¹The General Assembly requests that the Secretary-General submit an outline of the program budget for the upcoming biennium. The budget outline was established in 1986 and has become an important element of the budget process. One of the main purposes was to help the member states achieve consensus sought on the overall level of the UN budget, in advance, in view of the financial constraints imposed on the UN. See G. A. Res. 41/213, U.N. GAOR, 41st Sess., U.N. Doc. A/RES/41/213 (1986).

²OIOS officials informed us that appeals have been made to the Secretary-General in the past.

**Appendix IV
Process for Developing OIOS Budget**

Figure 10: Process for the Preparation, Approval, and Execution of OIOS Regular Budget^a



Source: GAO based on data provided and validated by OIOS and OPPBA.

Appendix IV
Process for Developing OIOS Budget

^aThe budget process for trust funds and special accounts is the same as that of the regular budget process. However, the budget cycle for peacekeeping operation's support account operates on a July to June fiscal year, and the budget is prepared annually. The Peacekeeping Finance Division provides budget instructions in September of each year. OIOS submits its budget to the controller in November. The Peacekeeping Finance Division provides comments to OIOS's proposed budget in December; subsequently, they meet in January to discuss the budget. ACABQ reviews the proposed budget in March, and the General Assembly reviews and approves the budget around May or June of each year.

Resources of Selected UN Oversight Entities

Some of the UN funds and programs falling under the authority of the Secretary-General have established their own internal oversight offices. Similarly, specialized agencies that do not fall within the authority of the Secretary-General and the International Atomic Energy Agency (IAEA) also have their own internal oversight offices that report to their respective executive heads and governing bodies. The capacities of these internal oversight offices and the services they provide vary. While some internal oversight offices are staffed to provide a full range of audit, investigation, inspection, and evaluation services, others have fewer staff and may augment their capabilities by engaging OIOS or outside consultants when necessary.

In February 2006, the Joint Inspection Unit completed a report that, among other things, assessed the capacity of existing UN oversight entities to deal with major risks that may arise in the UN system.¹ In doing so, the Joint Inspection Unit developed a suggested range of resources based on the size of the resources managed by each of the UN organizations and their respective internal oversight budgets. For example, as shown in figure 11, the UN was below the suggested range—while its internal oversight budget was \$58.8 million in the 2004-2005 biennium, the total resources it managed amounted to more than \$12.2 billion. Its oversight budget was, therefore, 0.48 percent of the organization's total resources, which is slightly lower than the suggested range of 0.50 to 0.70 percent for organizations with resources of \$800 million or more.

Based on the suggested ranges, the Joint Inspection Unit report showed that

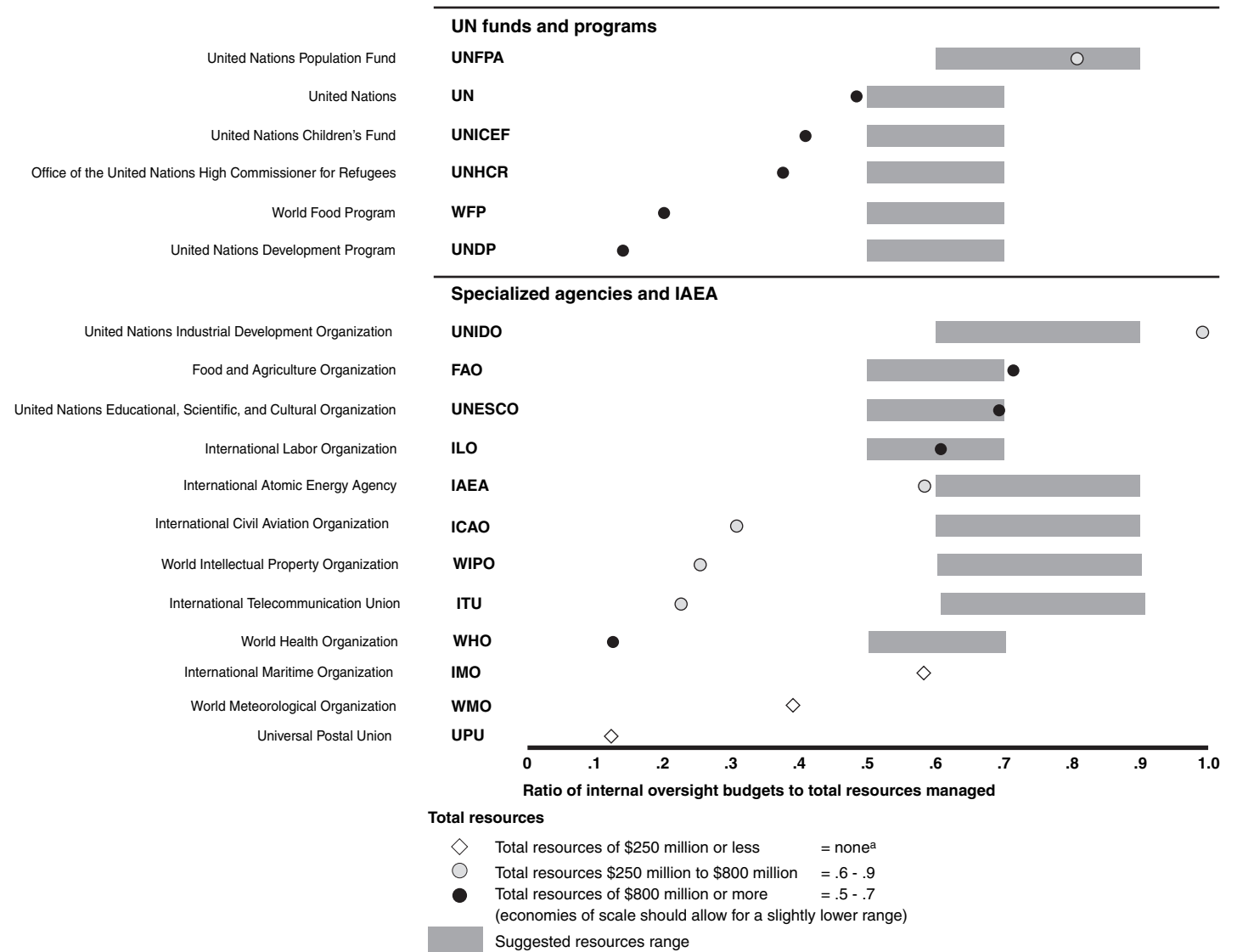
- 2 of the 18 organizations surveyed (the UN Industrial Development Organization and the Food and Agriculture Organization) have internal oversight resources that exceeded the suggested range;
- 3 organizations (the UN Population Fund; the UN Educational, Scientific, and Cultural Organization; and the International Labor Organization) were within the suggested range;
- 10 organizations fell below the suggested range; and

¹See JIU/REP/2006/2.

Appendix V
Resources of Selected UN Oversight Entities

- the remaining 3 organizations did not have a suggested range because of their smaller budgets.

Figure 11: Budget Comparison of Selected UN Oversight Entities, Biennium 2004-2005



Appendix V
Resources of Selected UN Oversight Entities

^aFor organizations with total resources of \$250 million or less, the Joint Inspection Unit suggested insourcing internal oversight services because there is not enough of a resource base to justify an internal oversight unit.

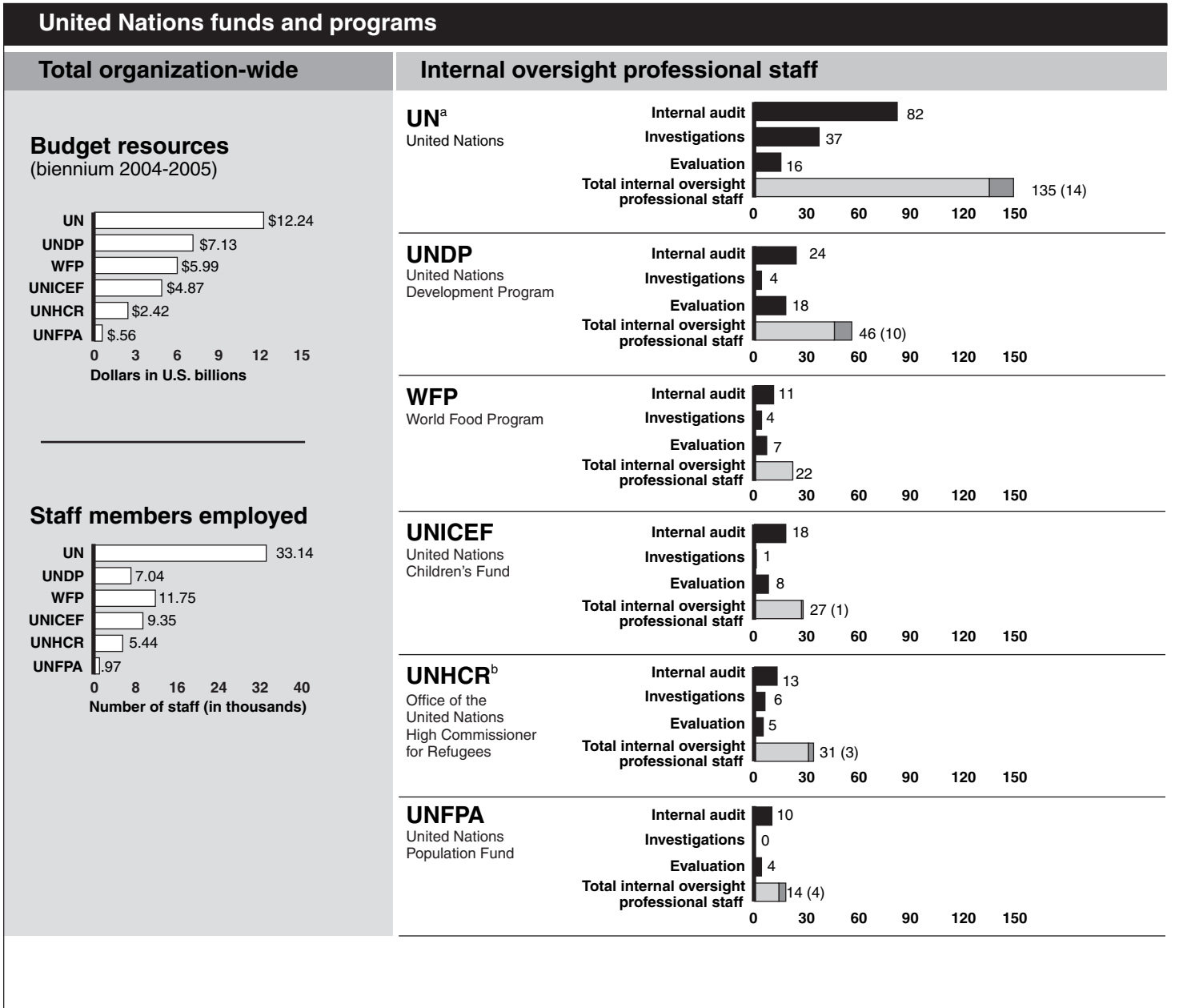
Figure 12 provides information on the total budget and staff resources of selected UN organizations for the fiscal biennium 2004-2005 and the number of internal oversight professional staff on board.

Appendix V
Resources of Selected UN Oversight Entities

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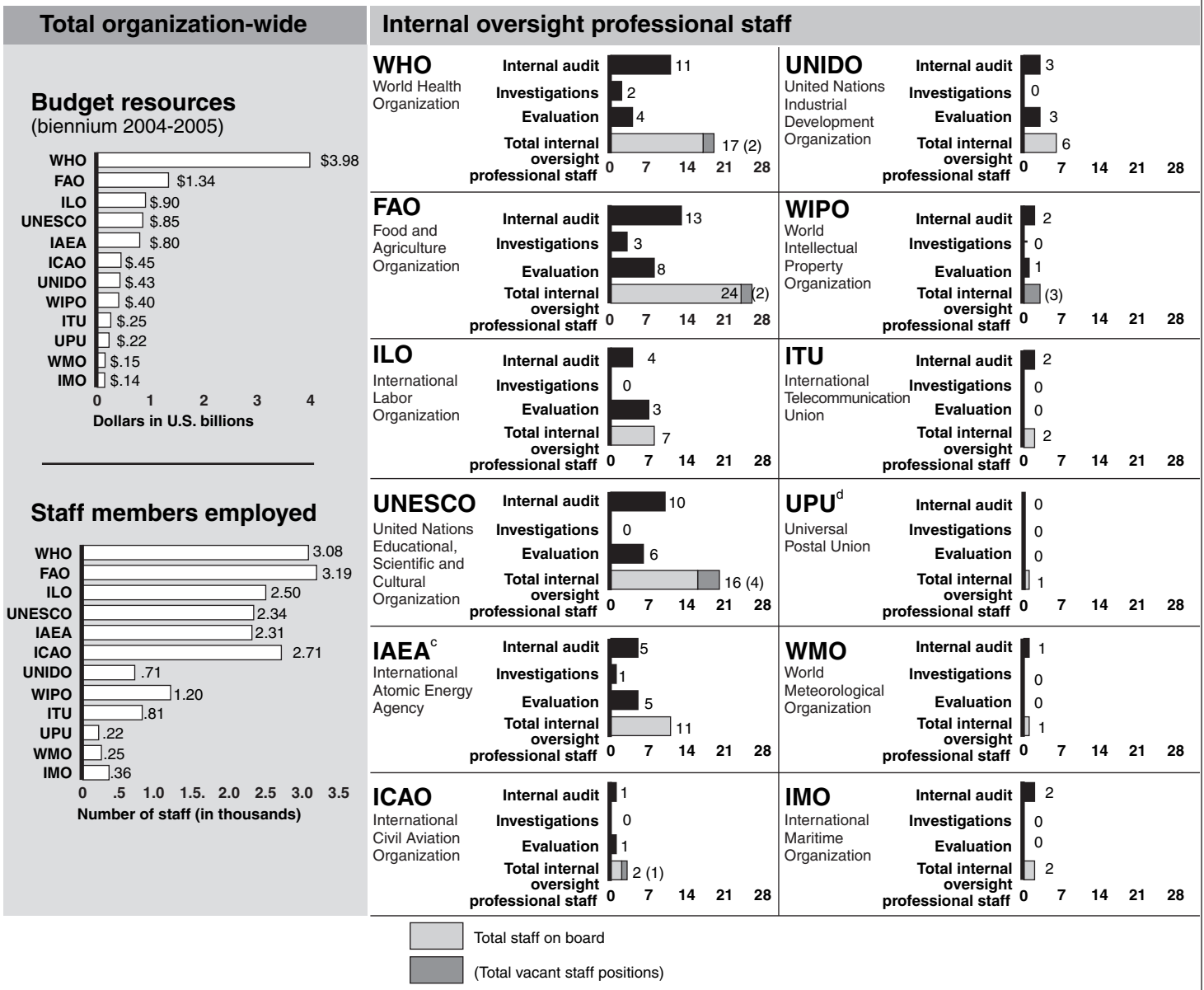
Appendix V
Resources of Selected UN Oversight Entities

Figure 12: Total Budget and Staff Resources of Selected UN Organizations and Number of Internal Oversight Professional Staff



**Appendix V
Resources of Selected UN Oversight Entities**

Specialized agencies and IAEA



Source: GAO analysis based on Joint Inspection Unit data.

^aUN data includes 16 monitoring, evaluation, and consulting professional staff.

Appendix V
Resources of Selected UN Oversight Entities

^bBreakdown of UNHCR data does not include six professional inspectors and one ethics and diversity officer.

^cIAEA's five professional evaluation staff includes two management services staff.

^dUPU's professional staff position is part-time at 80 percent.

Comments from the Office of Internal Oversight Services

UNITED NATIONS  NATIONS UNIES

Inga-Britt Ahlenius
Under-Secretary-General
for Internal Oversight Services

Ref: OUSG 06-384

12 April 2006



Dear Mr. Walker,

Thank you for forwarding me a draft copy of the report of the GAO review of my Office, the Office of Internal Oversight Services (OIOS). I found it interesting and noted that several observations made in the report are consistent with issues raised in OIOS's self-assessment and in recent peer reviews.

I welcome, in particular, the GAO's observations and recommendations relating to funding arrangements for OIOS. This is an issue of great concern to me and I was pleased with the decision taken by the General Assembly at the 2005 World Summit to request a comprehensive independent review of OIOS with a view to strengthening the Office. The terms of reference for the review call specifically for an evaluation of the independence of the Office with respect to funding and budgetary control. I am also expecting the review to address the issue of multiple sources of OIOS' funding and eliminate the restriction this arrangement has on the flexibility to redeploy resources to correspond with the risk to the United Nations.

OIOS has, over the past two years, made progress towards a risk-based approach to planning work, particularly in our auditing function. The observations made by the GAO reflect the current state of efforts and the GAO's assessment of what needs to be done is consistent with the objectives of OIOS' strategy. OIOS will follow the best practice in governance to ensure that there is clarity regarding management's responsibility for risk assessment and for the United Nations' systems of internal controls and the role of independent oversight in evaluating how this responsibility is discharged. The development of comprehensive risk profiles for all United Nations programmes will be conducted in collaboration with United Nations programme managers. This process will take time, resources and full commitment from all stakeholders. I would like to stress that, only a change of the present multiple source funding will allow us to realize a complete risk-based audit process.

Mr. David Walker
Comptroller General
General Accounting Office
441 G Street, Room 7100
Washington, DC 20548

Appendix VI
Comments from the Office of Internal
Oversight Services

I appreciate the GAO's observations regarding staff training and professional development. Maintaining and acquiring skills and knowledge is fundamental for OIOS' success in delivering its mandate. In the process of developing a strategic plan and budget for OIOS I will give particular attention to the requirements for instituting a professional development programme.

Please accept my appreciation for the GAO's work and I look forward to receiving the final report.



Inga-Britt Ahlenius
Under-Secretary-General
for Internal Oversight Services

Comments from the Department of State

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



United States Department of State
Assistant Secretary and Chief Financial Officer
Washington, D.C. 20520

APR 1 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: Funding Arrangements Impede Independence of Internal Auditors," GAO Job Code 320346.

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 Matt Glockner, Program Analyst, Bureau of International Organization Affairs, at (202) 647-6413.

Sincerely,

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

Bradford R. Higgins

cc: GAO – Jeffrey Baldwin-Bott
IO – Kristen Silverberg
State/OIG – Mark Duda

Department of State Comments on GAO Draft Report

United Nations: Funding Arrangements Impeded Independence of Internal Auditors
(GAO-06-575, GAO Code 320346)

Thank you for the opportunity to comment on your draft report entitled *United Nations: Funding Arrangements Impeded Independence of Internal Auditors*. The Department of State has been a strong supporter of the Office of Internal Oversight Services (OIOS) since its creation and welcomes the GAO report on UN oversight. The report provides timely information on several aspects of OIOS's authority and operations. This is the second GAO review of OIOS, and it provides a fuller understanding of how oversight is conducted in the UN. While the previous GAO report (GAO/NSIAD-98-9) did not address the issue of budgetary independence, we appreciate that the current report's focus on budgetary independence corresponds with the U.S. government's ongoing initiatives and efforts to address the issue of operational independence for OIOS.

The Department of State endorses the main findings of the GAO report. We fully agree that UN member states need to ensure that OIOS has budgetary independence. We believe that OIOS's inability to submit its budget request separately from the Secretary-General's budget is an impediment to its independence. Therefore, the U.S. has pressed for an independent budget for OIOS both during the 10-year review of OIOS's mandate (see GA resolution 59/272) and during the 2005 World Summit (see GA resolution 60/1). We will continue to work with other nations to build a constituency for this essential measure.

The Department of State disagrees with GAO's finding that funding arrangements hinder OIOS's flexibility to reallocate resources to address high-risk areas. The report provides little evidence to support the conclusion that multiple funding sources have cast a cloud over OIOS's ability to carry out its work independently and effectively. The overwhelming majority of funding for OIOS comes from two sources: the UN Regular Budget and UN Peacekeeping Budgets. Within these two large sources of funding, we believe there is sufficient flexibility to move resources in response to changing needs and evolving risks.

The GAO makes several recommendations relating to OIOS's risk assessment plan. The GAO notes that OIOS has yet to complete implementation of its risk assessment plan. The GAO also recommends that OIOS report to the

See comment 1.

General Assembly on the status of significant risks and control issues. We concur fully with these recommendations. The Department of State also notes that GAO recommends that OIOS should develop a workforce planning methodology. We believe that full implementation of the risk assessment will enable OIOS to determine its real resource requirements and align its budget request accordingly. Furthermore, we believe that the Independent Audit Advisory Committee, once operational, will address these issues and are pressing UN members to adopt a mandate for the committee.

The Department of State acknowledges that OIOS needs to improve staff training and proficiency. We agree with the GAO recommendation that OIOS should institute a mandatory training curriculum for its professional staff and will urge OIOS to ensure that its professional development program complies with international standards.

We also concur with GAO that OIOS needs to establish guidelines for assessing the reliability of data used to support its findings. Such tests are also necessary to assess the risks faced by OIOS's clients. Therefore, we will urge OIOS to update its manuals to comply with appropriate international standards.

Finally, we note the recommendation that OIOS require all professional staff to file statements of independence and financial disclosure. The Department of State believes that this recommendation is essential to ensuring OIOS's credibility as an objective and independent oversight body. We have repeatedly called upon the UN to require financial disclosures for all OIOS staff, as well as for staff with fiduciary responsibilities. Although we are not aware of any specific cases of impairments to the independence of OIOS staff, we believe that requiring statements of independence will boost perceptions of objectivity and credibility.

As the GAO report illustrates, OIOS is important to ensuring the credibility and reputation of the UN. Reform of oversight is part of the U.S. government's effort to overhaul the management of the UN. The report accurately recognizes that such reforms will require the U.S. to work with other UN member states to build support. The U.S. has established several partnerships with other like-minded UN members, and we look forward to continuing to work with these nations with the goal of strengthening OIOS. We also expect that many of GAO's recommendations will be addressed either by the UN's independent evaluation of internal oversight or by the Independent Audit Advisory Committee, which we anticipate to be operational later this year.

The following are our comments on State's letter dated April 11, 2006.

GAO Comments

1. We maintain that UN funding arrangements hinder OIOS's flexibility to reallocate resources. Our conclusion focuses on the impediments to redirecting resources to high-risk areas between multiple funding sources and does not necessarily advocate a single source of funding; rather, we recommend measures to ensure reliable and sufficient funding so OIOS can reallocate as necessary. Although the regular budget and peacekeeping funding sources make up the majority of OIOS's budget, there are still 11 other extrabudgetary funding sources where there is limited flexibility to redeploy resources to high-risk areas. One of the lessons learned from the Oil for Food Program was that OIOS did not receive sufficient budgetary funding for work that it proposed for the program, which prevented OIOS from examining problems.¹ When the Office of the Iraq Program denied OIOS's proposal for additional investigators to perform work it deemed necessary, redeploying resources to the Oil for Food Program was not a viable option given the restrictions that UN financial regulations and rules place on the movement of resources between funding sources.

¹See [GAO-06-330](#).

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Related GAO Products

United Nations: Procurement Internal Controls Are Weak, [GAO-06-577](#). (Washington, D.C., Apr. 25, 2006).

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

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

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