United States Government Accountability Office

GAO

Testimony

Before the Committee on International Relations, Subcommittee on Oversight and Investigations, House of Representatives

For Release on Delivery
Expected at 10:30 a.m. EST
Wednesday, March 2, 2005

UNITED NATIONS

Sustained Oversight Is Needed for Reforms to Achieve Lasting Results

Statement of Joseph A. Christoff, Director
International Affairs and Trade

GAO

Accountability * Integrity * Reliability

March 2, 2005

UNITED NATIONS

Sustained Oversight Is Needed for Reforms to Achieve Lasting Results

GAO Accountability • Integrity • Reliability

Highlights

Highlights of GAO-05-392T, a testimony before the Committee on International Relations, Subcommittee on Oversight and Investigations, House of Representatives

Why GAO Did This Study

The U.N. regular budget for the 2004-2005 biennium exceeded $3 billion for the first time. In light of the organization's increasing demands, the U.N. Secretary General and member states have called on the Secretariat to better define priorities and eliminate outdated activities. In response, the Secretary General launched major reform initiatives in 1997 and 2002, and we reported on the status of these efforts in February 2004.

Audits and investigations of the U.N. Oil for Food program have also brought attention to recurring management weaknesses. As the largest financial contributor to the United Nations, the United States has a strong interest in the completion of the Secretary General's reforms.

GAO provides observations on areas for U.N. reform based on our 2004 report and our continuing review of the Oil for Food program, including our analysis of internal audit reports and other documents.

www.gao.gov/cgi-bin/getrpt?GAO-05-392T.

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

What GAO Found

The United Nations needs sustained oversight at all levels of the organization to achieve lasting results on its reform agenda. We reported in 2004 that the Secretariat had made progress in implementing 51 percent of the Secretary General's 1997 and 2002 management reform initiatives. However, we found that more than one-quarter of the completed reforms only consisted of developing plans or establishing new offices—the first steps in achieving longer term reform goals. In addition, the Secretariat had not periodically conducted comprehensive assessments of the status and impact of its reforms. Accordingly, the Secretariat had not been able to determine what progress had been made or where future improvements were needed.

At the program level, management reviews that compare actual performance to expected results are critical elements of effective oversight and accountability. The United Nations has completed the initial phase of implementing reforms in a key area—performance-based budgeting. It adopted a budget that reflects a result-based budgeting format, including specific program costs, objectives, expected results, and performance indicators to measure results. However, the United Nations has yet to implement the next critical step in performance-based budgeting—a system to monitor and evaluate program impact or results. Program reviews that compare actual performance to expected outcomes are important for accounting for resources and achieving effective results.

A strong internal audit function provides additional oversight and accountability through independent assessments of U.N. activities, as demonstrated by audits of the U.N Oil for Food program. U.N. internal auditors found recurring management weaknesses in 58 audits it conducted over 5 years. However, constraints on their scope and authority prevented the auditors from examining and reporting widely on problems in the Oil for Food program. U.N. oversight bodies did not obtain timely reporting on serious management problems and were unable to take corrective actions when needed. These constraints limited the internal audit unit's effectiveness as an oversight tool. GAO plans to conduct more detailed work on the role of the internal auditors in upcoming engagements.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our review of the United Nations' (U.N.) reform efforts.

The U.N. regular budget for the 2004-2005 biennium exceeded $3 billion for the first time. In light of increasing demands, the U.N. Secretary General and member states called on the Secretariat to better define priorities and eliminate outdated activities. The Secretary General responded with major reform initiatives in 1997 and 2002. Investigations of the U.N. Oil for Food program have also brought attention to recurring management weaknesses. As its largest financial contributor, the United States has a strong interest in the completion of U.N. reforms.

Today, I will provide observations on U.N. reform efforts based on our 2004 report and our continuing review of the Oil for Food program, including our analysis of internal audit reports and other documents.

To address these objectives, we reviewed our February 2004 report on progress in implementing reforms and updated information where possible. [1] We also drew upon information from our previous reports of the Oil for Food program, including our analysis of internal audit reports and other documents.

In accordance with generally accepted government auditing standards, we conducted our work on the status of U.N. reforms from June 2003 through January 2004, updated information in February 2005, and conducted work on the Oil for Food program from January through February 2005.

Summary

The United Nations needs sustained oversight at all levels of the organization to make progress in its reform agenda and achieve lasting results. The Secretary General launched two major reform initiatives in 1997 and 2002 to address key efficiency, management, and accountability challenges facing the organization. We reported in February 2004 that the United Nations had carried out some of its initiatives, with 51 percent of all reforms in place. The 1997 agenda consisted of initiatives that the Secretary General could implement on his own authority and those that

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

required member states' approval. The implementation of reforms under the Secretary General's authority advanced more quickly than those under the authority of member states. We found that 70 percent of reform initiatives under the Secretary General's authority were in place, compared with 44 percent of the initiatives requiring member state approval. However, we found that more than one-quarter of the completed reforms only consisted of developing plans or establishing new offices—the first steps in achieving longer term reform goals. In addition, the Secretariat had not periodically conducted comprehensive assessments of the status and impact of its reforms. Without such assessments, the Secretariat could not determine the progress made or where future improvements were needed.

At the program level, management reviews that compare actual performance to expected outcomes are critical elements of effective oversight and accountability. The United Nations has completed the initial phase of implementing reforms in a key area—performance-based budgeting. It adopted a budget that reflects a result-based budgeting format, including specific program costs, objectives, expected results, and performance indicators to measure results. For the first time, the 2004-2005 budget included specific performance targets and baseline data for many performance indicators that can help measure performance over time and allow program managers to compare actual achievements to expected results. However, the United Nations has yet to implement the next critical step in performance-based budgeting—a system to monitor and evaluate program impact or results. Program reviews that compare actual performance to expected outcomes are important for accounting for resources and achieving effective results.

A strong internal audit function provides additional oversight and accountability through independent assessments of U.N. activities, as demonstrated by audits of the U.N Oil for Food program. This office provided detailed oversight of many aspects of the Oil for Food program, and its 58 reports point to the need for continued U.N. attention to management reforms. Our review of the audit reports of the Oil for Food program identified 702 findings and 667 recommendations across numerous programs and sectors. The internal auditors found recurring problems in procurement, financial and asset management, personnel and staffing, project planning and coordination, security, and information technology. However, constraints on the internal auditors' scope and authority prevented the auditors from examining and reporting widely on problems in the Oil for Food program. U.N. oversight bodies did not obtain timely reporting on serious management problems and were unable to take corrective actions when needed. These constraints limited the internal audit unit's effectiveness as an oversight tool. GAO plans to conduct more detailed work on the role of the internal auditors in upcoming engagements.

Background

In July 1997, the Secretary General proposed a broad reform program to focus the United Nations on achieving results as it carried out its mandates. These reforms included restructuring U.N. leadership and operations, developing a human capital system based on results, and introducing a performance-based programming and budgeting process. Although the Secretary General does not have direct authority over specialized agencies and many funds and programs, changes at the Secretariat were intended to serve as a model for reforms throughout the U.N. system. The Secretary General launched a second round of reforms in 2002 that expanded on the 1997 initiatives and reflected new areas of focus, such as public information activities and the human rights program. The overall goal was to align U.N. activities with the priorities defined by the Millennium Declaration and the new security environment.[2]

The 1997 and 2002 initiatives followed several efforts to reform the United Nations that began soon after its creation in 1945. Despite periodic cycles of reform, U.N. member states have continued to have concerns about inefficient operations; problems of fragmentation, duplication, and poor coordination; and the proliferation of mandates. These calls have also highlighted the need for more accountable leadership and improvement in key management practices. As the largest financial contributor to the United Nations, the United States has a strong interest in the completion of these reforms and has played a significant role in promoting financial, administrative, and programmatic changes. The State Department and the U.S. Permanent Mission to the United Nations continue to promote further reforms and report on the status of major reform initiatives to the U.S. Congress.

The call for reforms has also grown as a result of problems identified in the United Nations' management of the Oil for Food program. Last year we reported that the former Iraqi government obtained $10.1 billion through

[2]In 2000, the General Assembly adopted the Millennium Declaration, which contains a set of priorities and specific time frames for meeting development goals. The Millennium Declaration and the Secretary General's Road Map toward Implementation of the U.N. Millennium Declaration provide the overall priorities for all U.N. activities.

oil smuggling and illicit commissions and surcharges on commodity and oil contracts.[3] The Iraq Survey Group, responsible for investigating Iraq's activities in developing weapons of mass destruction, estimated illicit revenues at $10.9 billion and found similar irregularities in contract overpricing and surcharges. In April 2004, the Secretary General established the U.N. Independent Inquiry Committee (IIC) to investigate allegations of mismanagement and misconduct within the Oil for Food program. In February 2005, the IIC issued an interim report on the initial procurement of U.N. contractors, recipients of oil allocations, internal audit structure and activities, and management of administrative expenses.[4] The Committee offered numerous recommendations for improving the United Nations' internal audit function.

Sustained Oversight Is Needed for Lasting Results

Sustained oversight at all levels of the organization is needed for the United Nations to advance its reform agenda and achieve lasting results. The United Nations had completed 51 percent of its 1997 and 2002 reform initiatives. However, it has not periodically conducted comprehensive assessments to determine the status and impact of the reforms. Consequently, the Secretariat could not determine if it was meeting the Secretary General's overall reform goals.

Reforms under the Secretary General's Authority Advanced More Quickly

The Secretary General launched two major reform initiatives, in 1997 and 2002, to address the United Nation's core management challenges—poor leadership of the Secretariat, duplication among its many offices and programs, and the lack of accountability for staff performance. In assessing the status of these reforms, we found that the United Nations had made some progress in implementing these initiatives, putting in place 51 percent of all reforms. We found that 60 percent of the 88 reform initiatives in the 1997 agenda and 38 percent of the 66 reforms in the 2002 agenda were in place.[5]

[3]GAO, *United Nations: Observations on the Management and Oversight of the Oil for Food Program,* GAO-04-730T (Washington, D.C.: Apr. 28, 2004).

[4]Independent Inquiry Committee into the United Nations Oil-for-Food Programme, *Interim Report* (New York: Feb. 3, 2005).

[5]These numbers differ from the figures in the U.N. reform plans because many of the Secretary General's reform action items had several components that we identified and counted as separate initiatives.

The 1997 agenda consisted of initiatives that the Secretary General could implement on his own authority and those that required member states' approval. The implementation of reforms under the Secretary General's authority advanced more quickly than those under the authority of member states. We found that 70 percent of reform initiatives under the Secretary General's authority were in place, compared with 44 percent of the initiatives requiring member state approval.[6] Delays in acquiring member state approval are due, in part, to the longer time needed for the General Assembly to reach agreement from the majority.

In addition, many reform efforts comprise only the first step in achieving longer-term goals. More than one-quarter of the Secretary General's completed reforms in both the 1997 and 2002 agendas consisted of developing a written plan or establishing a new office. Although the establishment of a new office or department—such as the office to manage the U.N.'s interrelated programs to combat crime, drugs, and terrorism—can be counted as a completed reform, it is the office's performance in meeting its objectives that will determine its impact and the extent to which it contributes to the Secretary General's overall reform goals.

Periodic Assessments Are Not Conducted So Impact of Reforms Is Unclear

We also reported that the Secretariat had not conducted systematic, comprehensive assessments of the status and impact of the Secretary General's 1997 and 2002 reform initiatives. Without such assessments, the Secretariat was not able to determine what progress had been made and where further improvements were needed. Individual departments and offices within the Secretariat tracked reforms that related to their specific area of work. OIOS also monitored and evaluated the impact of selected reforms but was not responsible for overseeing the implementation of the overall reform agendas. In addition, the Deputy Secretary General, who is responsible for overseeing the overall reform process, neither systematically assessed departments' performance in implementing reforms nor held managers directly accountable. The office of the Deputy Secretary General had only one full-time professional staff member dedicated to reform issues. In 1998 and 2003, the Secretary General issued status reports on the 1997 and 2002 reforms, respectively. These reports

[6]The 2002 reform plan did not differentiate between initiatives that the Secretary General could implement on his own authority and those that required member states' approval.

did not cover all of the initiatives in the respective reform plans or include comprehensive assessments of the reforms.

In February 2005, we contacted the Office of the Deputy Secretary General to determine recent actions it has taken to report on the status and impact of the Secretary General's reform initiatives. An official stated that the office has conducted an internal assessment but has not released this document to member states. The Secretary General announced his intention to submit additional reform proposals to improve the organization's transparency and accountability before a September 2005 summit of world leaders.

Holding staff accountable for implementing these reforms and measuring their impact is difficult without regular, comprehensive reports on the overall status and impact of reform initiatives. Adopting key practices in management, oversight, and accountability for reforms, such as systematic monitoring and evaluation, could facilitate the achievement of the Secretary General's overall reform goals.

Performance-Based Budgeting Had Begun but Lacked Monitoring and Evaluation

At the program level, management reviews that compare actual performance to expected outcomes are critical elements of effective oversight and accountability. The United Nations has completed the initial phase of implementing reforms in a key area—performance-based budgeting. It adopted a budget that reflects a result-based budgeting format, including specific program costs, objectives, expected results, and performance indicators to measure results. However, it has yet to develop a system to regularly monitor and evaluate program results to shift resources to more effective programs. Program reviews that compare actual performance to expected outcomes are important to account for resources and achieve effective results.

Secretariat Has First Element of Performance-Based Budgeting in Place

We reported in February 2004 report that the United Nations had begun to adopt a performance-based budgeting system. A performance-based budgeting framework includes three key elements: (1) a budget that reflects a budgeting structure based on results, linking budgeted activities to performance expectations; (2) a system to regularly monitor and evaluate the impact of programs; and (3) procedures to shift resources to meet program objectives. In December 2000, the Secretariat implemented the first key element of a performance-based budgeting framework by adopting a budget that reflects a results-based budgeting format, including specific program costs, objectives, expected results, and performance indicators to measure the results.[7] For the first time, the 2004-2005 budget included specific performance targets and baseline data for many performance indicators that can help measure performance over time and allow program managers to compare actual achievements to expected results. However, oversight committees have reported that some programs still lacked clear and concise expected outcomes and performance indicators. [8]

Further, although the United Nations had developed measures for assessing program progress, many of these measures represent tasks and outputs rather than outcomes. For example, in 2003, a key objective of the peacekeeping operation in East Timor was to increase the capacity of the national police force to provide internal security. The indicator for measuring results was the number of police trained—a goal of 2,830 police by 2004. We reported, however, that the number of police trained did not reflect the quality of their training or whether they improved security in East Timor.

A Monitoring and Evaluation System Had Not Been Developed

The Secretariat had not systematically monitored and evaluated program impact or results—the second element of performance budgeting.[9] In 2002, the Office of Internal Oversight Services (OIOS) found that nearly half of U.N. program managers did not comply with U.N. regulations to regularly monitor and evaluate program performance. Program managers were not held accountable for meeting program objectives because U.N. regulations prevented linking program effectiveness and impact with program managers' performance. OIOS did not provide statistics on the number or percentage of program managers complying with U.N. regulations regarding monitoring and evaluation activities in its most recent report on

[7] We have previously reported that linking funding to specific performance goals is a critical first step in supporting the transition to a more results-oriented and accountable organization. See GAO, *Managing for Results: Agency Progress in Linking Performance Plans with Budget and Financial Statements*, GAO-02-236 (Washington, D.C.: Jan. 2002).

[8] For the purposes of this testimony, U.N. oversight committees refer to the Committee for Program and Coordination, which reviews the U.N. planning and budgeting documents and the work planned under each program, and the Advisory Committee on Administrative and Budgetary Questions. These committees report to the Fifth Committee, which is the General Assembly committee responsible for financial oversight of the Secretariat.

[9] U.N. regulations require that programs should be regularly monitored and evaluated to determine their relevance, effectiveness, and impact in relation to their objectives. See *Regulations and Rules Governing Program Planning, the Program Aspects of the Budget, the Monitoring of Implementation and the Methods of Evaluation* (New York: United Nations, Apr. 19, 2000).

the Secretariat's evaluation efforts.[10] However, OIOS reported that program managers did not develop comprehensive monitoring and evaluation plans in 12 out of 20 programs surveyed, and management review of evaluations was inconsistent among programs.

OIOS also reported that, overall, evaluation findings were not used to improve program performance. In some cases, such as with the Office of the High Commissioner for Human Rights, monitoring and evaluation responsibilities were assigned to low-level staff with minimal oversight from program managers. Further, for the majority of programs, no resources had been assessed or allocated for monitoring and evaluation activities. As a result, it is unlikely that the Secretariat will meet its goal of implementing a full performance-based budgeting system by 2006.

The final component of performance budgeting—procedures to review evaluation results, eliminate obsolete programs, and shift resources to other programs—was not in place. The Advisory Committee on Administrative and Budgetary Questions reported in 2003 that it did not receive systematic information from the Secretariat on program impact and effectiveness to determine whether a program was meeting its expected results. In 2004, the Committee for Program and Coordination recommended that the Secretariat improve its monitoring and evaluation system to measure impact and report on results. In December 2003, the General Assembly approved the elimination of 912 of more than 50,000 outputs in the 2004-2005 program budget based on the Secretariat's review of program activities. However, in 2003, the Advisory Committee on Administrative and Budgetary Questions and the Committee for Program and Coordination reported that many sections in the budget still lacked justifications for continuing certain outputs. The committees recommended that program managers in the Secretariat identify obsolete outputs in U.N. budgets in compliance with U.N. regulations so resources could be moved to new priority areas.

Our February 2004 report contained recommendations to promote full implementation and accountability of the Secretary General's overall actions. Specifically, we recommended that the United States work with other member states to encourage the Secretary General to (1) report

[10]*Strengthening the Role of Evaluation Findings in Programme Design, Delivery, and Policy Directives: Report of the Office of Internal Audit Services*, A/59/79 (New York: May 5, 2004).

regularly on the status and impact of the 1997 and 2002 reforms and other reform that may follow, (2) differentiate between short- and long-term goals and establish time frames for completion, and (3) conduct assessments of the financial and personnel implications needed to implement the reforms.

U.N. Oil for Food Program

In addition to a systematic monitoring and evaluation system, a strong internal audit and evaluation function can provide the independent assessments needed to help ensure oversight and accountability. OIOS provides this service through audits, evaluations, inspections, and investigations of U.N. funds and programs. This office provided detailed oversight of many aspects of the Oil for Food program, and its 58 reports point to the need for continued U.N. attention to management reforms. Specifically, reports by the internal auditors and the Independent Inquiry Commission revealed lax oversight of Oil for Food program contracts that resulted in repeated violations of procurement rules and weaknesses in contract management. In addition, constraints on the internal auditors' scope and authority prevented the auditors from examining and reporting more widely on some critical areas of the Oil for Food program. U.N. oversight bodies did not obtain timely reporting on serious management problems and were unable to take corrective actions when needed. These constraints limited the internal audit unit's effectiveness as an oversight tool.

Lack of Oversight Allowed Procurement Violations and Poor Contract Management

Our review of the OIOS audit reports of the Oil for Food program released in January 2005 identified 702 findings and 667 recommendations across numerous programs and sectors. [11] OIOS found recurring problems in procurement, financial and asset management, personnel and staffing, project planning and coordination, security, and information technology. The findings in these audits, which were conducted from 1999 to 2004, suggested a lack of oversight and accountability by the offices and entities audited. In particular, we identified 219 findings and 212 recommendations related to procurement and contract management deficiencies.

In February 2005, the IIC also reported that the initial procurement of three major Oil for Food contracts awarded in 1996 did not meet

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

reasonable standards of fairness and transparency. The IIC reported that it will make recommendations concerning greater institutional transparency and accountability in a later report. OIOS also conducted audits of three key contracts for inspecting commodities coming into Iraq and for independent experts to monitor Iraq's oil exports. OIOS' findings in the management of two of these contracts supplemented the IIC's information on the bidding and awarding process. The IIC found that the initial selection process did not conform to competitive bidding rules, while OIOS found lax oversight by the U.N. Office of the Iraq Program (OIP) over contractor performance.

IIC Found Lack of Compliance with Procurement Regulations

The IIC reviewed three major contracts awarded in 1996 to determine if their selections were free from improper influence and were conducted in accordance with U.N. regulations. These contracts were awarded to Lloyd's Register Inspection Ltd. to inspect humanitarian goods coming into Iraq, Saybolt Eastern Hemisphere BV to inspect oil exported from Iraq, and Banque National de Paris to maintain revenues from Iraqi oil sales.

In its February 2005 report, the IIC found that the United Nations initiated expedited competitive bidding processes for both the humanitarian goods and oil inspection contracts. The IIC concluded that, during the bid process, the U.N. Iraq Steering Committee and the Chief of the Sanctions Branch prejudiced and preempted the competitive process by rejecting the lowest qualified bidder in favor of an award to Lloyd's Register. The IIC found that the regular bidding process was tainted when the branch chief provided a diplomat from the United Kingdom with insider information on the bid amount that Lloyd's Register needed to win the contract.

Similarly, the IIC found that a U.N. procurement officer allowed Saybolt to amend its bid to become the lowest bidder. The IIC characterized the bidding process for this contract as neither fair nor transparent.

The IIC also found irregularities in the award of a contract to Banque National de Paris. The decision did not conform to the U.N. requirement to award contracts to the lowest acceptable bidder, and no official justified the rejection of the lowest acceptable bidder in writing, as required by U.N. regulations.

OIOS Found Weaknesses in Procurement and Contract Oversight

OIOS conducted audits of the Lloyd's Register and Saybolt contracts as well as the contract to Cotecna Inspection SA, the company that succeeded Lloyd's Register for the inspection of humanitarian goods.

In a July 1999 audit of the Lloyd's Register contract, OIOS found contractor overcharges, unverified invoices, violations of procurement regulations, and limited U.N. oversight. For example, while the contract allowed the United Nations to inspect and test all contractor services, the auditors found that OIP had received, certified, and approved the contractor's invoices without on-site verification or inspection reports. In responding to the auditors findings, OIP rejected the call for on-site inspections and stated that any dissatisfaction with the contractor's services should come from the suppliers or their home countries.

A July 2002 audit of Saybolt's operation found similar problems, including inadequate documentation for contractor charges and payments made for equipment already included in the contractor's daily staff cost structure. As with the Lloyd's Register contract, OIOS found that OIP officials charged with monitoring the Saybolt contract had made no inspection visits to Iraq but had certified the contractor's satisfactory compliance with the contract and approved extensions to the contract.

In an April 2003 report, OIOS cited concerns about amendments and extensions to Cotecna's original $4.9 million contract. Specifically, OIOS found that OIP increased Cotecna's contract by $356,000 4 days after the contract was signed. The amendment included additional costs for communication equipment and operations that OIOS asserted were included in the original contract. In addition, OIOS found that the contract equaled the offer of the second lowest bidder through amendments and extensions during the contract's first year. Accordingly, OIOS concluded that, one year after the start of the contract, the reason for awarding the contract to Cotecna—on the grounds that it was the lowest bidder—was no longer valid.

In addition to the three inspection contracts, OIOS reported procurement weaknesses in other areas of the Oil for Food program. For example, in November 2002, OIOS reported that almost $38 million in procurement of equipment for the U.N.-Habitat program was not based on a needs assessment. As a result, 51 generators went unused from September 2000 to March 2002, and 12 generators meant for project-related activities were converted to office use. OIOS further reported that 11 purchase orders totaling almost $14 million showed no documentary evidence supporting the requisitions.

Effectiveness of Internal Oversight Was Limited by Budgeting and Reporting Constraints

In 1994, the General Assembly established OIOS to conduct audits, evaluations, inspections, and investigations of U.N. programs and funds. Its mandate reflects many characteristics of U.S. inspector general offices in purpose, authority, and budget. For example, OIOS staff have access to all U.N. records, documents, or other material assets necessary to fulfill their responsibilities.

We reported in 1997 that OIOS was in a position to be operationally independent, had overcome certain start-up problems, and had developed policies and procedures for much of its work. We could not test whether OIOS exercised its authority and implemented its procedures in an independent manner because OIOS did not provide us with access to certain audit and investigation reports and its working papers. However, we concluded that OIOS could do more to help ensure that the information it presents, the conclusions it reaches, and the recommendations it makes can be relied upon as fair, accurate, and balanced. The IIC also made a number of recommendations in January 2005 to help provide OIOS' audit division with the mandate, structure, and support it needs to operate effectively.

The IIC found a need for greater reporting and budgetary independence for OIOS and its internal audit division. This division has two funding sources: (1) the U.N. regular budget, which covers normal, recurring audit activities; and (2) extra-budgetary funds allocated outside the U.N. regular budget, which cover audits of special non-recurring funds and programs, such as the Oil for Food program. OIOS' internal audit division received extra-budgetary funds directly from the Oil for Food program managers it audited. It assigned 2 to 6 auditors to cover the program. The IIC found that this level of staffing was low compared to OIOS' oversight of peacekeeping operations and to levels recommended by the U.N. Board of Auditors.

The IIC found that the practice of allowing executive directors of funds and programs the right to approve the budgets and staffing of internal audit activities can lead to critical and high risk areas being excluded from internal audit examination and review by oversight bodies. For example:

- Since its inception, OIOS has generally submitted its audit reports only to the head of the audited agency. However, in August 2000 OIOS tried to widen its report distribution by sending its Oil for Food reports to the Security Council. However, the OIP director opposed this proposal, stating that it would compromise the division of responsibility between internal and external audit. The Deputy Secretary General also denied the request, and OIOS subsequently abandoned any efforts to report directly to the Security Council.

- OIOS did not examine OIP's oversight of the contracts for humanitarian goods in central and southern Iraq that accounted for almost $40 billion in Oil for Food proceeds. OIP was responsible for examining these contracts for price and value at its New York headquarters. The Iraqi government's ability to negotiate contracts directly with commodity suppliers was an important factor in enabling Iraq to levy illegal commissions. OIOS believed that these contracts were outside its purview because the Security Council's sanctions committee was responsible for their approval. However, OIP management also steered OIOS toward program activities in Iraq rather than headquarters functions where OIP reviewed the humanitarian contracts.

- In May 2002, OIP's executive director did not approve the auditors' request to conduct a risk assessment of OIP's Program Management Division, citing financial reasons. We reported last year that it was unclear how certain entities involved in the Oil for Food program, including OIP, exercised their oversight responsibilities over humanitarian contracts and sanctions compliance by member states.[12] Such an assessment might have clarified OIP's oversight role and the actions it was taking to carry out its management responsibilities.

- In 2002, the U.N. Compensation Commission challenged OIOS' audit authority.[13] In its legal opinion, the U.N. Office of Legal Affairs noted that the audit authority extended to computing the amounts of compensation but did not extend to reviewing those aspects of the panels' work that constitute a legal process. However, OIOS disputed the legal opinion, noting that its mandate was to review and appraise the use of U.N. financial resources. OIOS believed that the opinion would effectively restrict any meaningful audit of the claims process. OIOS identified more than $500 million in potential overpayments by the Commission. However, as a result of the legal opinion, the Commission did not respond to many OIOS observations and recommendations, considering them beyond the scope of an audit.

---

[12]GAO-04-730T.

[13]The U.N. Compensation Commission was established in 1991 to process claims and provide compensation for losses resulting from Iraq's invasion and occupation of Kuwait.

Constraints on the internal auditors' scope and authority prevented the auditors from examining and reporting more widely on problem areas in the Oil for Food program. These limitations hampered the auditors' coverage of the Oil for Food program and its effectiveness as an oversight tool. U.N. oversight bodies did not obtain timely reporting on serious management problems and were unable to take corrective actions when needed. However, in December 2004, the General Assembly required OIOS to include in its annual and semi-annual reports titles and brief summaries of all OIOS reports issued during the reporting period and to provide member states with access to original versions of OIOS reports upon request. The IIC also recommended that OIOS and its internal audit division directly report to a non-executive board and that budgets and staffing levels for all audit activities be submitted to the General Assembly and endorsed by an independent board.

Conclusion

The Secretary General's announcement that he intends to offer a U.N. reform agenda in September 2005 offers the United Nations an opportunity to take a more strategic approach to management reform. A systematic review of the status of the 154 reforms begun in 1997 and 2002 and information from the Oil for Food program would allow the Secretary General to develop a comprehensive, prioritized agenda for continued U.N. reform. We also encourage continued attention to our February 2004 recommendation that the United States work with other member states to encourage the Secretary General to report regularly on the status of reform efforts, prioritize short- and long-term goals, and establish time frames to complete reforms.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions you or the other Subcommittee members may have.

Contact and Staff Acknowledgments

For further information, please contact Joseph A. Christoff on (202) 512-8979. Individuals making key contributions to this testimony and the reports on which it was based are Phyllis Anderson, Leland Cogliani, Lynn Cothern, Katie Hartsburg, Jeremy Latimer, Tetsuo Miyabara, Michael Rohrback, and Audrey Solis.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone:	Voice: (202) 512-6000
	TDD: (202) 512-2537
	Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548