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UNITED NATIONS

**Oil for Food Program
Audits**

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Highlights of [GAO-05-346T](#), a testimony before the Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate.

Why GAO Did This Study

The Oil for Food program was established by the United Nations and Iraq in 1996 to address concerns about the humanitarian situation after international sanctions were imposed in 1990. The program allowed the Iraqi government to use the proceeds of its oil sales to pay for food, medicine, and infrastructure maintenance.

Allegations of fraud and corruption have plagued the Oil for Food program. As we have testified and others have reported, the former regime gained illicit revenues through smuggling and through illegal surcharges and commissions on Oil for Food contracts. The United Nations' Independent Inquiry Committee was established in April 2004 to investigate allegations of corruption and misconduct within the Oil for Food program and its overall management of the humanitarian program. In January 2005, the Committee publicly released 58 internal audit reports conducted by the United Nations' Office of Internal Oversight Services (OIOS).

GAO (1) provides information on OIOS' background, structure, and resources; (2) highlights the findings of the internal audit reports; and (3) discusses limitations on the audits' coverage.

www.gao.gov/cgi-bin/getrpt?GAO-05-346T.

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

UNITED NATIONS

Oil for Food Program Audits

What GAO Found

Before the United Nations established OIOS, the United States and other member states had criticized its lack of internal oversight mechanisms. In 1993, the United States proposed the establishment of an inspector general position within the United Nations and withheld U.S. funds until such an office was established. In 1994, the General Assembly created OIOS and tasked it with conducting audits, investigations, inspections, and evaluations of U.N. programs and funds. OIOS has generally provided audit reports to the head of the U.N. agency or program subject to the audit but also provided certain reports of interest to the General Assembly. However, this limited distribution hampered member states' efforts to oversee important U.N. programs. In December 2004, the General Assembly directed OIOS to publish the titles and summaries of all audit reports and provide member states with access to these reports on request.

The audit reports released in January 2005 found deficiencies in the management of the Oil for Food program and made numerous recommendations. We identified 702 findings in these reports. Most reports focused on U.N. activities in northern Iraq, the operations of the U.N. Compensation Commission, and the implementation of U.N. inspection contracts. In the north, OIOS audits found problems with coordination, planning, procurement, asset management, and cash management. For example, U.N. agencies had purchased diesel generators in an area where diesel fuel was not readily available and constructed a health facility subject to frequent flooding. An audit of U.N.-Habitat found \$1.6 million in excess construction material on hand after most projects were complete. OIOS audits of the U.N. Compensation Commission found poor internal controls and recommended downward adjustments totaling more than \$500 million. The United Nations asserted that OIOS had limited audit authority over the Commission. Finally, OIOS audits of the contractors inspecting Iraq's oil exports and commodity imports found procurement irregularities and limited U.N. oversight.

OIOS' audits and summary reports revealed deficiencies in the management and internal controls of the Oil for Food program. However, OIOS did not examine certain headquarters functions—particularly OIP's oversight of the contracts for central and southern Iraq that accounted for 59 percent or almost \$40 billion in Oil for Food proceeds. The Independent Inquiry Committee noted several factors that limited OIOS' scope and authority. First, OIOS did not believe it had purview over the humanitarian contracts because the sanctions committee approved the contracts. Second, the U.N. Office of the Iraq Program steered OIOS toward programs in the field rather than at headquarters. Third, the Office of the Iraq Program refused to fund an OIOS risk assessment of its program management division. Finally, U.N. management and the Office of the Iraq Program prevented OIOS from reporting its audit results directly to the Security Council.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our review of the internal audit reports of the United Nations (U.N.) Oil for Food program.

Allegations of fraud and corruption have plagued the Oil for Food program. As we have testified and others have reported, the former regime gained illicit revenues through smuggling oil and obtaining illegal surcharges and commissions on Oil for Food contracts. The United Nations' Independent Inquiry Committee was established in April 2004 to investigate allegations of mismanagement and misconduct within the Oil for Food program. In January 2005, the Committee released 58 internal audit reports on the Oil for Food program conducted by the United Nations' Office of Internal Oversight Services (OIOS). On February 3, 2005, the Committee issued an interim report on the procurement of U.N. contractors, recipients of oil allocations, OIOS structure and activities, and U.N. management of Oil for Food administrative expenses.¹

Today, I will (1) provide information on OIOS' background, structure, and resources; (2) highlight the findings of the internal audit reports; and (3) discuss limitations on the audits' coverage.

To address these objectives, we analyzed the internal audit reports to determine the reports' audit coverage, findings, recommendations, disposition of recommendations, and potential cost savings. We catalogued the findings to determine common themes related to the management of the Oil for Food program. We also reviewed the February 2005 Independent Inquiry Committee report. Appendix I contains an explanation of our scope and methodology.

We conducted this review in January and February 2005 in accordance with generally accepted government auditing standards.

Summary

Before the United Nations established OIOS, the United States and other member states had criticized its lack of internal oversight mechanisms. In 1993, the United States proposed the establishment of an inspector general position within the United Nations and withheld U.S. funds until such an

¹Independent Inquiry Committee into the United Nations Oil-for-Food Programme, *Interim Report* (New York: Feb. 3, 2005).

office was established. In 1994, the General Assembly created OIOS and tasked it with conducting audits, investigations, inspections, and evaluations of U.N. programs and funds. OIOS has generally provided audit reports to the head of the U.N. agency or program subject to the audit. OIOS also provided certain reports of interest to the General Assembly. However, this limited distribution hampered member states' efforts to oversee important U.N. programs. In December 2004, the General Assembly directed OIOS to publish the titles and summaries of all audit reports and provide member states with access to these reports on request.

The audit reports released in January 2005 found deficiencies in the management of the Oil for Food program and made numerous recommendations to correct these deficiencies. We identified 702 findings contained in the reports. Most reports focused on U.N. activities in northern Iraq, the operations of the U.N. Compensation Commission, and the implementation of U.N. inspection contracts. In the north, OIOS audits found problems with coordination, planning, procurement, asset management, and cash management. For example, U.N. agencies had purchased diesel generators in an area where diesel fuel was not readily available and constructed a health facility subject to frequent flooding. An audit of U.N.-Habitat found \$1.6 million in excess construction material on hand after most projects were complete. OIOS audits of the U.N. Compensation Commission found poor internal controls to prevent employee fraud, collusion, and illegal activities. In its 2004 assessment of claims for war damages, OIOS recommended downward adjustments totaling more than \$500 million. The U.N.'s Office of Legal Affairs stated that OIOS' audit authority did not extend to reviewing the Commission's decisions. Finally, OIOS audits of the contractors inspecting Iraq's oil exports and commodity imports found procurement irregularities and limited U.N. oversight.

OIOS' audits and summary reports revealed deficiencies in the management and internal controls of the Oil for Food program. However, OIOS did not examine certain headquarters functions—particularly the Office of the Iraq Program's oversight of the contracts for central and southern Iraq that accounted for 59 percent or almost \$40 billion in Oil for Food proceeds. The Independent Inquiry Committee noted several factors that limited OIOS' scope and authority. First, OIOS did not believe it had purview over the humanitarian contracts because the sanctions committee approved the contracts. Second, the U.N. Office of the Iraq Program steered OIOS toward programs in the field rather than at headquarters. Third, the Office of the Iraq Program refused to fund an OIOS risk

assessment of its program management division. Finally, U.N. management and the Office of the Iraq Program prevented the internal auditors from reporting their audit results directly to the Security Council.

Background

In 1996, the United Nations and Iraq established the Oil for Food program to address growing concerns about the humanitarian situation in Iraq after international sanctions were imposed in 1990. The program's intent was to allow the Iraqi government to use the proceeds of its oil sales to pay for food, medicine, and infrastructure maintenance, and at the same time prevent the regime from obtaining goods for military purposes. From 1997 through 2002, Iraq sold more than \$67 billion in oil through the program and issued \$38 billion in letters of credit to purchase commodities.

The Oil for Food program initially permitted Iraq to sell up to \$1 billion worth of oil every 90 days to pay for humanitarian goods. Subsequent U.N. resolutions increased the amount of oil that could be sold and expanded the humanitarian goods that could be imported. In 1999, the Security Council removed all restrictions on the amount of oil Iraq could sell to purchase civilian goods. The United Nations and the Security Council monitored and screened contracts that the Iraqi government signed with commodity suppliers and oil purchasers, and Iraq's oil revenue was placed in a U.N.-controlled escrow account. In May 2003, U.N. resolution 1483 requested the U.N. Secretary General to transfer the Oil for Food program to the Coalition Provisional Authority by November 2003. The United Nations allocated 59 percent of the oil revenue for the 15 central and southern governorates, which were controlled by the central government; 13 percent for the 3 northern Kurdish governorates; 25 percent for a war reparations fund for victims of the Iraq invasion of Kuwait in 1990; and 3 percent for U.N. administrative costs, including the costs of weapons inspectors.

In central and southern Iraq, the Iraqi government used the proceeds from its oil sales to purchase food, medicines, and infrastructure supplies and equipment. The Iraqi government negotiated directly with suppliers and distributed food in accordance with its Public Distribution System, a food ration basket for all Iraqis. In northern Iraq, nine U.N. agencies implemented the program, primarily through constructing or rehabilitating

schools, health clinics, power generation facilities, and houses.² Local authorities submitted project proposals to the United Nations to consider and implement. The Iraqi government in Baghdad procured bulk food and medicines for the northern region, but the World Food Program and the World Health Organization were responsible for ensuring the delivery of these items.

From 1997 to 2002, the Oil for Food program was responsible for more than \$67 billion of Iraq's oil revenue. Through a large portion of this revenue, the United Nations provided food, medicine, and services to 24 million people and helped the Iraqi government supply goods to 24 economic sectors. In February 2002, the United Nations reported that the Oil for Food program had considerable success in sectors such as agriculture, food, health, and nutrition by arresting the decline in living conditions and improving the nutritional status of the average Iraqi citizen.

OIOS History, Organization, and Resources

Prior to the creation of OIOS, the United States and other member states had expressed concern about the ability of the United Nations to conduct internal oversight. 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. Since its inception, OIOS has submitted its audit reports to the head of the unit being audited for action and only forwarded to the Secretary General those reports in which program officials disagreed with audit recommendations. It also provided certain reports to the General Assembly. However, in December 2004, the General Assembly passed a resolution requiring OIOS to publish the titles and summaries of all audit reports and provide member states with access to these reports on request.

Events Leading to the Creation of OIOS

Before the OIOS was created in July 1994, the United States and other U.N. member states, the U.S. Congress, and the Government Accountability Office (GAO) had expressed concern about the United Nations' management of its resources and had criticized the inadequacies of its

²The Food and Agricultural Organization; International Telecommunications Union; U.N. Development Program; U.N. Children's Fund; U.N. Educational, Scientific, and Cultural Organization; U.N.-Habitat; U.N. Office for Project Services; World Health Organization; and World Food Program.

internal oversight mechanisms. In response, the Secretary General established the Office for Inspections and Investigations in August 1993 under the leadership of an Assistant Secretary General. However, member states—primarily the United States—wanted a more autonomous oversight body with greater authority.

In November 1993, the U.S. Permanent Representative to the United Nations proposed the establishment of an “office of inspector general” to the General Assembly. The office would be headed by an “inspector general” who, although an integral part of the Secretariat, would carry out his/her responsibilities independently of the Secretariat and all U.N. governing bodies. According to the proposal, the office would support member states and the Secretary General by providing independent advice based on an examination of all activities carried out at all U.N. headquarters and field locations financed by the regular budget, peacekeeping budgets, and voluntary contributions. At the same time, the new office would have external reporting responsibilities.

In April 1994, Congress enacted Public Law 103-236, which required certain funds to be withheld from the United Nations until the President certified that it had established an independent office of inspector general to conduct and supervise objective audits, investigations, and inspections. The legislation stated, among other things, that the inspector general should have access to all records, documents, and offices related to U.N. programs and operations. The legislation also called for the United Nations to have procedures to (1) ensure compliance with the inspector general office’s recommendations and (2) protect the identity of, and prevent reprisals against, any staff members making a complaint, disclosing information, or cooperating in any investigation or inspection by the inspector general’s office.

After a series of negotiations among member states, including the United States, a compromise was reached. The General Assembly, in July 1994, approved a resolution creating OIOS within the U.N. Secretariat. OIOS’ mandate reflects many of the characteristics of U.S. inspector general offices in purpose, authority, and budget. For example, OIOS staff have access to all records, documents, or other material assets necessary to fulfill their responsibilities.

OIOS’ reporting mandate calls for it to submit reports to the Secretary General and the General Assembly. Since its inception, OIOS has generally submitted its reports to the head of the unit audited. If program officials disagreed with the report’s recommendations, the report was submitted to

the Secretary General. However, beginning in 1997, OIOS began listing all its reports in its annual reports to the General Assembly and briefing representatives of member states interested in a particular report. It also provided certain reports of interest to the General Assembly. Further transparency over OIOS audit reports occurred in December 2004 when the General Assembly approved a resolution calling for OIOS to include in its annual and semi-annual reports the titles and brief summaries of all OIOS reports issued during the reporting period. OIOS was also directed to provide member states with access to original versions of OIOS reports upon request.³

OIOS Organization and Staffing

As of June 2004, OIOS had 180 posts, including 124 professional staff and 56 general service staff. Staff work in four operational divisions: Internal Audit Divisions I and II; the Monitoring, Evaluation, and Consulting Division; and the Investigations Division. The 58 audit reports released on January 9, 2005, reflect the work of Internal Audit Division I, which contained a separate unit for Iraq-related work. For 2004, OIOS' resources totaled \$23.5 million.

OIOS generally conducts four types of activities: audits, evaluations, inspections, and investigations. Audits determine if internal controls provide reasonable assurance of the integrity of financial and operational information and whether rules are followed and resources are safeguarded. Audits also identify ways to improve the efficient use of resources and the effectiveness of program management. OIOS' internal audit divisions adhere to the Standards for the Professional Practice of Internal Auditing in the United Nations.⁴ These standards regulate issues related to independence, objectivity, proficiency, management, and the code of ethics and rules of conduct for auditors.

Inspections address mandates, management issues, or areas of high risk, make recommendations, and are generally submitted through the Secretary General to the General Assembly. Evaluations assess the relevance, efficiency, effectiveness, and impact of a program's outputs and

³"Review of the Implementation of General Assembly resolutions 48/218B and 54/244," A/59/649, para.1(c) (Dec. 22, 2004).

⁴As promulgated by the Institute of Internal Auditors and adopted by the Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institution.

activities against its objectives. These reports are addressed to the intergovernmental body—normally the Committee for Program and Coordination or the General Assembly—that requested the evaluation.

Investigations staff follow up on reports of possible violations of rules or regulations, mismanagement, misconduct, waste of resources, or abuses of authority. OIOS also monitors program performance and prepares the Program Performance Report of the Secretary General, which is submitted to the General Assembly every 2 years.

The complexity and diversity of the U.N. Oil for Food program and associated risks called for adequate oversight coverage. In 2000, OIOS established the Iraq Program Audit Section within the Internal Audit Division. The Independent Inquiry Committee report stated that the number of auditors assigned to Oil for Food audits increased from 2 in 1996 to 6 in 2002 and 2003. OIOS' audit responsibilities extended to the following entities involved in Iraq operations:

- Office of the Iraq Program (OIP) in New York;
- U.N. Office of the Humanitarian Coordinator in Iraq;
- U.N. Compensation Commission (UNCC);
- U.N. Monitoring, Verification, and Inspection Commission;
- U.N. Human Settlement Program (U.N.-Habitat) Settlement Rehabilitation Program in northern Iraq;⁵
- U.N. Guards Contingent in Iraq; and
- U.N. Department of Management.

⁵OIOS provided audit coverage for U.N.-Habitat; the other 8 U.N. agencies implementing programs in northern Iraq were audited internally by their respective departments.

Audits Show Recurring Management Weaknesses

The OIOS audits revealed a number of deficiencies in the management of the Oil for Food program and its assets and made numerous recommendations to correct these deficiencies. The audits focused primarily on Oil for Food activities in northern Iraq and at the U.N. Compensation Commission. OIOS also conducted audits of the three U.N. contracts for inspecting commodities coming into Iraq and for independent experts to monitor Iraq's oil exports.⁶

We identified a total of 702 findings contained in the reports across numerous programs and sectors. Weaknesses and irregularities were common in planning and coordination, procurement, and asset and cash management. Appendix I contains the summary data of our analysis and a description of our scope and methodology. Our summary below focuses on key findings for the areas that received the most audit coverage—activities in northern Iraq and the U.N. Compensation Commission. We also highlight findings from the audits of the inspections contracts.

U.N. Oil for Food Program in Northern Iraq

The OIOS audits that reviewed U.N. activities in northern Iraq found problems with planning and coordination, procurement, and asset and cash management.

In 2004, OIOS reported that U.N.-Habitat had not adequately coordinated with other U.N. agencies in providing essential services for its housing projects. For example, U.N.-Habitat provided high-capacity generators but had not contacted the U.N. Development Program—the entity responsible for the power sector—to provide electric power connections. OIOS also found that about 3,200 houses were unoccupied for extended periods due to a lack of coordination with agencies providing complementary services.

An August 2000 report noted a lack of planning that resulted in the questionable viability of some Oil for Food projects in northern Iraq. For example, six diesel generators were procured in an area where diesel fuel was not readily available. In addition, local authorities would not accept a newly constructed health facility subject to flooding. A December 2000 report also noted that highways and a sports stadium were built in

⁶Of the 58 reports, 26 reported on activities related to the program northern Iraq, 19 audited the UNCC, 6 addressed liquidation issues, 3 audited the contracts for inspecting oil exports and goods coming into Iraq, and 2 reviewed the U.N. Treasury's management of funds. The Independent Inquiry Committee also released 2 summary reports, one of which had been drafted by OIOS but not issued.

violation of criteria established by the Security Council and the Iraqi government.

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. In addition, OIOS reported that 11 purchase orders totaling almost \$14 million showed no documentary evidence supporting the requisitions.

In 2002, OIOS found that the U.N.-Habitat program lacked a proper asset inventory system and that no policies and procedures governing asset management were evident. As a result, the value of assets was not readily available. In one case, \$1.6 million in excess construction material remained after most projects were complete.

OIOS also reported that a lack of effective cash management policies meant that project funds were misused or put at risk. In a March 2000 audit, OIOS reported that the U.N. Development Program's country office used \$500,000 in project funds for office expenses without authorization or proper documentation. A February 2002 audit found that the office in Erbil put at risk \$600,000 to \$800,000 in cash due to a lack of cash management policies.

U.N. Compensation Commission

The U.N. Compensation Commission (UNCC), a subsidiary unit of the Security Council, was established in 1991 to process claims and provide compensation for losses resulting from Iraq's invasion and occupation of Kuwait. Compensation is payable from a special fund that initially received 30 percent of the proceeds from Iraqi oil sales. The claims are resolved by panels, each of which is made up of three commissioners who are experts in law, accounting, loss adjustment, assessment of environmental damage, and engineering, according to UNCC.

The UNCC received more than 2.6 million claims for death, injury, loss of or damage to property, commercial claims, and claims for environmental damage resulting from Iraq's invasion of Kuwait in 1991. As of December 2004, all but about 25,000 of these claims had been resolved, and almost \$19 billion had been paid in compensation, according to UNCC.

In a July 2002 risk assessment of UNCC, OIOS found that controls to prevent employee fraud were marginal, operations required close

monitoring to prevent possible collusion, possibilities existed for illegal activities, and payment processing controls were inadequate. The report concluded that the overcompensation of claims and irregular or fraudulent activities could lead to significant financial risks.

OIOS audits identified weaknesses in UNCC's management of claims processing and payments resulting in recommended downward adjustments of more than \$500 million. For example, in a September 2002 audit, OIOS found potential overpayments of \$419 million in compensation awarded to Kuwait. OIOS identified duplicate payments, calculation errors, insufficient evidence to support losses, and inconsistent application of claims methodology.

In a December 2004 audit, OIOS found that using the exchange rate against the U.S. dollar on the date of the claimed loss, rather than the date of payment as consistent with U.N. financial rules and regulations, had resulted in substantial overpayments. OIOS estimated that the likely overpayments were about \$510 million.

Previously in 2002, UNCC had challenged OIOS' audit authority. In a legal opinion on OIOS' authority requested by UNCC, 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 financial resources of the United Nations. OIOS believed that the opinion would effectively restrict any meaningful audit of the claims process.

As a result of the legal opinion, UNCC did not respond to many OIOS observations and recommendations, considering them beyond the scope of an audit. According to OIOS, UNCC accepted about \$3.3 million of the more than \$500 million in recommended claims reductions. On the audit of \$419 million in potential overpayments to Kuwait, OIOS noted that it received the workpapers to conduct the audit 8 days after the award was made.

Contracts to Inspect Oil Exports and Commodity Deliveries

To help ensure that the proceeds of Iraq's oil sales were used for humanitarian and administrative purposes, the United Nations contracted with companies to monitor Iraq's oil exports and commodity imports. OIOS audits of these contracts revealed procurement problems and poor contract management and oversight by OIP.

The United Nations contracted with Saybolt Eastern Hemisphere B.V. to oversee the export of oil and oil products from Iraq through approved export points. At the time of the audit report in July 2002, the estimated total value of the contract was \$21.3 million, with an annual contract value of \$5.3 million. OIOS found that OIP had made no inspection visits to Iraq and posted no contract management staff in Iraq. However, OIP had certified that Saybolt's compliance with the contract was satisfactory and approved extensions to the contract. In addition, OIOS estimated that the United Nations paid \$1 million more than was necessary because equipment costs were already built into the inspectors' daily fee structure. OIOS asserted that these costs should have been charged as a one-time expenditure. OIOS recommended that OIP recover the \$1 million paid for equipment and that future contracts provide for equipment purchases as one-time expenditures. OIP did not respond to the auditors' first recommendation and did not agree with the second recommendation.

The first contract for inspecting imported commodities was with Lloyds' Register Inspection Ltd.; the initial 6-month contract was for \$4.5 million, and the total value of the contract increased to more than \$25 million by July 1999. Lloyds' agents were to monitor, verify, inspect, test, and authenticate humanitarian supplies imported into Iraq at three entry points.

In July 1999, OIOS found deficiencies in OIP's oversight of Lloyds' contract. OIP had certified Lloyd's invoices for payment without any on-site verification or inspection reports. OIOS reported that Lloyds' used suppliers' manifests to authenticate the weight of bulk cargo and did not independently test the quality of medicines and vaccines supplied. In responding to the audit's findings, OIP rejected the call for on-site inspections and stated that any dissatisfaction with Lloyds' services should come from the suppliers or their home countries.

OIP awarded a new contract to Cotecna Inspection S.A. Similar to Lloyd's, Cotecna was to verify that the description, value, quantity, and quality of supplies arriving in Iraq were in accordance with the criteria established by the sanctions committee. In April 2003, OIOS cited concerns about procurement issues and amendments and extensions to Cotecna's original \$4.9 million contract. Specifically, OIOS found that, 4 days after the contract was signed, OIP increased Cotecna's contract by \$356,000. The amendment included additional costs for communication equipment and operations that OIOS asserted were included in the original contract. OIP agreed to amend future contracts to ensure that procurement documents include all requirements, thus eliminating the need to amend contracts.

Various Factors Affected Audit Coverage and Effectiveness

OIOS' audits and summary reports revealed a number of deficiencies in the management and internal controls of the Oil for Food program, particularly in northern Iraq. The reports also identified problems in UNCC's claims processing resulting in significant overpayments. However, OIOS did not examine certain headquarters functions responsible for overseeing the humanitarian commodity contracts for central and southern Iraq. Limitations on OIOS' resources and reporting hampered its coverage of the Oil for Food program and its effectiveness as an oversight tool.

OIOS did not examine certain headquarters functions—particularly OIP's oversight of the contracts for central and southern Iraq that accounted for 59 percent or almost \$40 billion in Oil for Food proceeds. The Iraqi government used these funds to purchase goods and equipment for central and southern Iraq and food and medical supplies for the entire country. As we reported in 2004, the Iraqi government's ability to negotiate contracts directly with the suppliers of commodities was an important factor in enabling Iraq to levy illegal commissions.⁷

OIP was responsible for examining contracts for price and value at its New York headquarters. In addition, the U.N. sanctions committee reviewed contracts primarily to remove dual-use items that Iraq could use in its weapons programs. However, it remains unclear which U.N. entity reviewed Iraq contracts for price reasonableness.

OIOS did not assess the humanitarian contracts or OIP's roles and responsibilities and its relationship with the sanctions committee. OIOS believed that these contracts were outside its purview because the sanctions committee was responsible for their approval. OIP management also steered OIOS toward program activities in Iraq rather than headquarters functions where OIP reviewed the humanitarian contracts.

Even when OIOS requested funds to conduct an assessment of OIP operations, the funds were denied. For example, in May 2002, OIP's executive director did not approve a request to conduct a risk assessment of OIP's Program Management Division, citing financial reasons. The Committee also noted that the practice of allowing the heads of programs

⁷U.S. General Accounting Office, *United Nations: Observations on the Oil for Food Program and Areas for Further Investigation*, [GAO-04-953T](#) (Washington, D.C.: July 8, 2004).

the right to fund internal audit activities leads to excluding high-risk areas from internal audit examination. The Committee therefore recommended that the Internal Audit Division's budgets and staffing levels for all activities be submitted directly to the General Assembly.

In addition, OIOS assigned only 2 to 6 auditors to cover the Oil for Food program. The Committee found that this level of staffing was low compared to OIOS' oversight of peacekeeping operations. In addition, the U.N. Board of Auditors indicated that 12 auditors were needed for every \$1 billion in U.N. expenditures. The Committee concluded that the Oil for Food program should therefore have had more than 160 auditors at its height in 2000. However, the Committee found no instances in which OIOS communicated broad concerns about insufficient staff levels to U.N. management.

OIOS also encountered problems in its efforts to widen the distribution of its reporting beyond the head of the agency audited. In August 2000, OIOS proposed to send its reports to the Security Council. However, the Committee reported that the OIP director opposed this proposal, stating that it would compromise the division of responsibility between internal and external audit. In addition, the U.N. Deputy Secretary General denied the request and OIOS subsequently abandoned any efforts to report directly to the Security Council.

Conclusion

The internal audits provide important information on the management of the Oil for Food program, particularly in the north, and on the management of the commission that compensates claims for war damages with proceeds from Iraq's oil sales—two areas that have received little public attention. The reports also broaden the findings of the Independent Inquiry Committee's report, particularly with respect to the inadequacies in the award of the oil and customs inspections contracts. However, many unanswered questions remain about the management and failings of the Oil for Food program, particularly the oversight roles of OIP and the Security Council's sanctions committee.

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

Appendix I: Summary of OIOS Audit Findings and Recommendations

We reviewed the 58 reports released by the Independent Inquiry Committee to determine the scope of the audits and the issues addressed in the reports' findings and recommendations. We created a data base of information from 50 reports to identify the program elements that the audits reviewed, the findings of each audit, and the recommendations for improvement.¹ To identify audit scope, we identified the extent to which the audits addressed Oil for Food headquarters operations, U.N. Secretariat Treasury operations in New York, U.N. operations in the northern Iraq, and the U.N. Compensation Commission for disbursing claims for damage caused by the 1991 Persian Gulf War. To determine the range of issues addressed by the audits, we identified the kinds of issues raised by the findings and determined that the audits addressed the following issues: (1) procurement and contract management and oversight; (2) financial management, including financial controls, management of funds, and procedures for payments; (3) asset management, including inventory, and the management of fixed assets such as vehicles, buildings, and supplies; (4) personnel and staffing; (5) project planning, coordination, and oversight; (6) security; and (7) information technology. We established a protocol to identify findings for data input, and we identified specific recommendations in the audit reports. To ensure consistency of data input, a data base manager reviewed all input, and all data input was independently validated. Table 1 presents the summary of overall findings and recommendations in OIOS reports. Table 2 presents these findings by area of U.N. operation.

¹We did not include in the data base information from the six audits that addressed the liquidation and shutdown of the Oil for Food program in 2003. These reports focused on the termination rather than the operations of the Oil for Food program. We also did not include information from the two summary reports because they included discussions of findings documented in previous audits. However, we reviewed these reports to help identify overall areas of concern and lessons learned, and we incorporated information and observations from the summary reports into our statement.

Table 1: Number of Findings and Recommendations in 50 U.N. OIOS Reports by Finding Subject

Finding subject	Findings	Recommendations
Asset management	34	32
Financial management	226	212
Information technology	26	22
Planning, coordination, and oversight	66	63
Procurement/contract management and oversight	219	212
Personnel and staffing	79	74
Security	52	52
Total	702	667

Source: GAO analysis of 50 OIOS reports on various Oil for Food program and UNCC activities.

Table 2: Number of Findings and Recommendations in 50 U.N. OIOS Reports for Selected Oil for Food Program and Related Activities

Activities	Finding subject	Findings	Recommendations
UN headquarters	Asset management	2	2
	Financial management	4	4
	Information technology	0	0
	Planning, coordination, and oversight	9	9
	Procurement/contract management and oversight	54	52
	Personnel and staffing	2	2
	Security	0	0
	Subtotal	71	69
Northern Iraq	Asset management	29	27
	Financial management	93	93
	Information technology	9	9
	Planning, coordination, and oversight	53	51
	Procurement/contract management and oversight	153	150
	Personnel and staffing	41	39
	Security	52	52
	Subtotal	430	421
Treasury	Asset management	1	1
	Financial management	27	27
	Information technology	2	2

Activities	Finding subject	Findings	Recommendations
	Planning, coordination, and oversight	1	0
	Procurement/contract management and oversight	0	0
	Personnel and staffing	1	1
	Security	0	0
	Subtotal	32	31
UNCC	Asset management	2	2
	Financial management	102	88
	Information technology	15	11
	Planning, coordination, and oversight	3	3
	Procurement/contract management and oversight	12	10
	Personnel and staffing	35	32
	Security	0	0
	Subtotal	169	146

Source: GAO analysis of 50 OIOS reports on various Oil for Food program and UNCC activities.

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