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Highlights

Highlights of GAO-06-711T, a testimony before the Subcommittee on National Security, Emerging Threats, and International Relations; Committee on Government Reform, House of Representatives

Why GAO Did This Study

In 1996, the United Nations (UN) and Iraq began the Oil for Food program after sanctions were imposed in 1990. The program was intended to allow the Iraqi government to sell oil to pay for humanitarian goods and prevent it from obtaining goods for military purposes. More than $67 billion in oil revenue was obtained through the program, with $31 billion in assistance delivered to Iraq.

Internal controls serve as the first line of defense in preventing fraud, waste, and abuse and in helping agencies achieve desired outcomes.

GAO assesses (1) the control environment the UN established for managing the sanctions and Oil for Food program and (2) other key internal control elements. In addition, we provide observations on the lessons learned from the program.

What GAO Recommends

GAO recommends that the Secretary of State and the Permanent Representative of the U.S. to the UN work with member states to (1) ensure that UN programs with considerable financial risk apply internationally accepted internal control standards and (2) strengthen internal controls throughout the UN, based on the lessons from Oil for Food program. The Department of State and the UN responded that they are taking steps to strengthen internal controls at the UN.

www.gao.gov/cgi-bin/getrpt?GAO-06-711T.

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.

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UNITED NATIONS

Oil for Food Program Provides Lessons for Future Sanctions and Ongoing Reform

What GAO Found

The UN—the Security Council, the Secretariat, and member states—established a weak control environment for the Oil for Food program at the beginning. The UN allowed Iraq to control contract negotiations for imported commodities with little oversight, enabling the regime to obtain illicit funds through surcharges and kickbacks. The UN did not take steps to address the economic impact that the sanctions had on countries that depended on Iraqi trade, which undermined international support for sanctions and allowed Iraq to smuggle oil outside the Oil for Food program. Overall, the sanctions were effective in helping to prevent the Iraq regime from obtaining military items, but the UN was less rigorous in overseeing economic activities such as monitoring the price and value of Iraq's contracts. The UN's neglect of Iraq's illicit revenue streams helped support a sanctioned regime and undermined the goals of using oil revenues to benefit the Iraqi people.

The UN did not adequately address key internal control elements as it implemented the Oil for Food program. First, UN entities lacked clear lines of authority. For example, the Office of the Iraq Program lacked clear authority for rejecting commodity contracts based on pricing concerns. In addition, the customs contractor at Iraq's border was not authorized to evaluate imports for price and quality. Second, the UN did not assess emerging risks as the Oil for Food program expanded from a 6-month emergency measure to deliver food and medicine to a 6-year program providing more than $31 billion to 24 economic sectors. Third, some monitoring activities constrained Iraq's ability to obtain illicit oil surcharges, but smuggling continued despite the presence of inspectors. In addition, the UN's internal audit office identified hundreds of weaknesses and irregularities in its reports. However, it lacked the resources and independence to provide effective oversight of this costly and complex UN effort.

The Oil for Food program offers several lessons for designing future sanctions and strengthening existing UN programs:

- Assess whether the sanctions program gives undue control to the sanctioned country.
- Consider the economic impact that sanctions have on neighboring countries.
- Ensure that all aspects of sanctions are equally enforced.
- Establish clear authority and responsibility for management, oversight, and monitoring activities.
- Assess and mitigate risk as programs and funding expand.
- Assess the role of internal oversight units and ensure that they have the resources and independence needed for effective oversight.