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UNITED NATIONS

Internal Oversight and
Procurement Controls and
Processes Need
Strengthening

Statement of David M. Walker,
Comptroller General of the United States





Highlights of [GAO-06-701T](#), a testimony before the Committee on International Relations, House of Representatives

Why GAO Did This Study

The United States has strongly advocated that the United Nations (UN) reform its management practices to mitigate various program and financial risks. The findings of the Independent Inquiry Committee into the Oil for Food Program have renewed concerns about UN oversight, and the 2005 UN World Summit proposed actions to improve the UN's Office of Internal Oversight Services (OIOS). Furthermore, over the past decade, as UN procurement more than tripled to \$1.6 billion in response to expanding UN peacekeeping operations, experts have called on the UN to correct procurement process deficiencies.

We examined (1) whether UN funding arrangements for OIOS ensure independent oversight; (2) the consistency of OIOS's practices with key auditing standards; and (3) the control environment and processes for procurement.

What GAO Recommends

GAO recommends that the Secretary of State and the Permanent Representative of the United States to the UN work with member states to support: (1) budgetary independence for OIOS; (2) measures for OIOS to more closely adhere to international standards; and (3) improvements to UN procurement internal controls and processes. State and OIOS generally agreed with our overall findings and recommendations. The UN did not provide us with written comments on procurement.

www.gao.gov/cgi-bin/getrpt?GAO-06-701T.

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

UNITED NATIONS

Internal Oversight and Procurement Controls and Processes Need Strengthening

What GAO Found

The UN is vulnerable to fraud, waste, abuse, and mismanagement due to a range of weaknesses in existing management and oversight practices. In particular, current funding arrangements adversely affect OIOS's budgetary independence and compromise its ability to investigate high-risk areas. Also, weaknesses in the control environment and UN procurement processes leave UN funds vulnerable to fraud, waste, and abuse.

UN funding arrangements constrain OIOS's ability to operate independently as mandated by the General Assembly and required by international auditing standards 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 respond to changing circumstances and reallocate resources among revenue streams, locations, and operating divisions. Thus, OIOS cannot always direct resources to high-risk areas that may emerge after its budget is approved. Second, OIOS depends on the resources of the funds, programs, and other entities it audits. The managers of these programs 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 timely examination.

OIOS has begun to implement key measures for effective oversight, but some of its practices fall short of the applicable international auditing standards it has adopted. 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 the office does not have adequate resources, but they also lack a mechanism to determine appropriate staffing levels. Furthermore, OIOS has no mandatory training curriculum for staff.

UN funds are vulnerable to fraud, waste, abuse, and mismanagement because of weaknesses in the UN's control environment for procurement, as well as in key procurement processes. The UN lacks an effective organizational structure for managing procurement, has not demonstrated a commitment to improving its procurement workforce, and has not adopted specific ethics guidance. While the UN Department of Management is responsible for UN procurement, field procurement staff are supervised by the UN Department of Peacekeeping Operations, which lacks the expertise and capacity to manage field procurement. Also, the UN has not established procurement training requirements or a career path, and has yet to adopt new ethics guidance for procurement staff, despite long-standing General Assembly mandates. In addition, the UN has not established an independent process to consider vendor protests despite a 1994 recommendation by a high-level panel to do so as soon as possible. Further, the UN does not consistently implement its process for helping to ensure it conducts business with qualified vendors.

Chairman Hyde, Ranking Member Lantos, and Members of the Committee:

I appreciate the opportunity to be here today to discuss United Nations (UN) reforms in the context of improving UN internal oversight and strengthening internal controls and processes over its procurement system. During my tenure as Comptroller General, we have identified the 21st Century challenges that constitute many of the major concerns facing the U.S. government, and which illustrate the need for transformation to help ensure that our government functions in the most economical, efficient, and effective manner possible. Likewise, the UN faces a range of significant challenges in reforming its management practices and mitigating various program and financial risks by fully implementing internationally recognized standards and norms. As the largest financial contributor to the UN, with assessed and voluntary contributions totaling more than \$1.6 billion in 2006,¹ the United States has strongly advocated for the reform of UN management practices. Specifically, the United States strongly supported the 1994 creation of an internal oversight office to help ensure the efficient and effective use of UN resources.

Concerns about the financial independence and sufficiency of resources of the internal oversight unit at the UN have been long-standing. Additionally, for more than a decade, experts have called on the UN to correct serious deficiencies in its procurement process; however, recent audits and investigations have uncovered evidence of corruption and mismanagement in the UN's procurement activities. In 2005, the UN purchased more than \$1.6 billion in goods and services—primarily to support a peacekeeping program that has more than quadrupled in size since 1999, and which may increase further in the future. Thus, it is vital that demonstrated deficiencies in procurement are addressed in a timely and effective manner.

In 2005, UN member states approved an agenda to reform many of the UN's management practices, in particular by helping to ensure ethical conduct; strengthening internal oversight and accountability; reviewing budgetary, financial, and human resources policies; and reviewing UN mandates. Even though UN member states support management reforms, there is considerable disagreement within the General Assembly over the process

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

and implementation of the reforms, which thus far has been slow and uneven.

Because the UN is a multilateral institution, our oversight authority does not directly extend to the UN, but instead extends through the United States' membership in the organization. In recognition of this factor, we do UN related work only in response to specific requests from committees with jurisdiction over UN matters, including your own. Congressional interest in this area has been high in recent years, and many of our ongoing or recently completed requests are both bicameral and bipartisan in nature.

My statement is based on two reports that we are releasing today.² I will focus on the need to strengthen the UN Office of Internal Oversight Services (OIOS) in terms of its budgetary independence and its full implementation of key components of effective oversight. I will also focus on the need to address weaknesses in two of the key elements of internal controls affecting UN procurement—specifically those concerning the overall control environment and several control activities,³ which are those procedures intended to provide reasonable assurance that staff are complying with management directives.

The work for these reports and this testimony was conducted in accordance with generally accepted government auditing standards between April 2005 and March 2006.

Summary

The UN is vulnerable to fraud, waste, abuse, and mismanagement due to a range of weaknesses in existing management and oversight practices. In particular, current funding arrangements adversely affect OIOS's budgetary independence and compromise its ability to investigate high-risk areas. Also, weaknesses in the control environment and UN procurement processes leave UN funds vulnerable to fraud, waste, and abuse.

²GAO, *United Nations: Funding Arrangements Impede Independence of Internal Auditors*, GAO-06-575 (Washington, D.C.: April 25, 2006); GAO, *United Nations: Procurement Internal Controls Are Weak*, GAO-06-577 (Washington, D.C.: April 25, 2006).

³To assess internal controls in the UN procurement process, we used the Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control—Integrated Framework* (September 1992), a framework that is widely accepted in the international audit community. The five elements of internal controls are: the control environment, control activities, risk assessment, information and communications, and monitoring.

UN funding arrangements constrain OIOS's ability to operate independently as mandated by the General Assembly and required by the 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 extrabudgetary revenue streams, UN financial regulations and rules severely limit OIOS's ability to respond to changing circumstances and 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 as compensation 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 timely examination. For example, the practice of allowing the heads of programs the right to deny 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's 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. Furthermore, OIOS has no mandatory training curriculum for staff to develop and maintain their expertise. OIOS's shortcomings in meeting key components of international auditing standards can serve to undermine the office's

effectiveness in carrying out its functions as the UN's main internal oversight body. Effective oversight demands reasonable budgetary independence, sufficient resources, and adherence to professional auditing standards.

We found that UN procurement resources are unnecessarily vulnerable to mismanagement, fraud, waste, and abuse because of weaknesses affecting the control environment for UN procurement. First, the UN has not established a single organizational entity or mechanism capable of effectively and comprehensively managing procurement. Second, the UN has not demonstrated a commitment to improving the professionalism of its procurement staff in the form of training, a career development path, or other key human capital practices critical to attracting, developing, and retaining a qualified professional workforce. Third, the UN has failed to adopt a full range of new ethics guidance for procurement officials despite directives from the General Assembly in 1998 and 2005.

We also found weaknesses in key procurement processes that are intended to provide reasonable assurance that management's procurement directives are followed. We found that, although UN procurement has increased sharply in recent years, the size of the UN's principal contract-review committee and its support staff remained relatively stable. Committee members stated that they do not have resources to keep pace with the current workload. In addition, the UN has not established an independent process to consider vendor protests despite a 1994 recommendation by a high-level panel of international procurement experts to do so as soon as possible. Also, the UN has not updated its procurement manual since 2004 to reflect current UN procurement policy. Further, the UN does not consistently implement its process for helping to ensure that it is conducting business with qualified vendors.

In our reports, we recommended 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 and support OIOS's efforts to more closely adhere to international auditing standards; and
- encourage the UN to establish clear lines of authority, enhance training, adopt ethics guidance, address problems facing its principal contract-review committee, establish an independent bid protest mechanism, and implement other steps to improve UN procurement.

Background

OIOS was created in 1994 to assist the Secretary-General in fulfilling internal oversight responsibilities over UN resources and staff. 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.” 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.⁴ The Under Secretary-General may be removed by the Secretary-General only for cause and with the General Assembly’s approval. OIOS’s authority spans all UN activities under the Secretary-General.⁵ 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. 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;⁶ 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.

⁴The current Under Secretary-General for Internal Oversight Services was appointed in July 2005.

⁵These 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 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, or World Health Organization.

⁶The 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.

Management of the UN's rapidly growing spending on procurement involves several UN entities. The Department of Management controls the UN's procurement authority, and its 70-person UN Procurement Service develops UN procurement policies and procures items for UN headquarters. While the Procurement Service procures certain items for peacekeeping, about one-third of all UN procurement spending is managed by about 270 staff at the Department of Peacekeeping Operations' 19 widely dispersed field missions. These missions may not award contracts worth more than \$200,000 without the approval of the Department of Management (based on advice from the Headquarters Committee on Contracts). UN procurement spending has more than tripled since 1997, peaking at \$1.6 billion in 2005. Major items procured include air transportation services, freight forwarding and delivery services, motor vehicles and transportation equipment, and chemical and petroleum products. The sharp increase in UN procurement was due in part to a five-fold increase in the number of military personnel in peacekeeping missions.⁷ Peacekeeping expenditures have more than quadrupled since 1999, from \$840 million to about \$3.8 billion in 2005. Peacekeeping procurement accounted for 85 percent of all UN procurement in 2004.

In September 2005, the UN World Summit issued an "outcome document," which addressed several management reform initiatives, including reforms for: ensuring ethical conduct; strengthening internal oversight and accountability; reviewing budgetary, financial, and human resources policies; and reviewing mandates. While the outcome document was endorsed by all UN member countries, there is considerable disagreement within the General Assembly over the process and implementation of the reforms. In December 2005, UN member states agreed to a \$950 million spending cap on the UN's biennium budget for 2006-2007, pending progress on management reforms. These funds are likely to be spent by the middle of 2006, at which time the General Assembly will review progress on implementing reforms and decide whether to lift the cap and allow for further spending.

⁷The number of military peacekeepers increased from about 14,000 in 1999 to about 73,000 as of February 2006.

Funding Arrangements Impede Independence of the UN Internal Auditors

The UN is vulnerable to fraud, waste, abuse, and mismanagement due to a range of weaknesses in existing oversight practices. The General Assembly mandate creating OIOS calls for it to be operationally independent. In addition, international auditing standards note that an internal oversight activity should have sufficient resources to effectively achieve its mandate. In practice, however, OIOS's independence is impaired by constraints that UN funding arrangements impose.

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. 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. In addition, the Institute of Internal Auditors' (IIA) standards for the professional practice of auditing,⁸ 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.

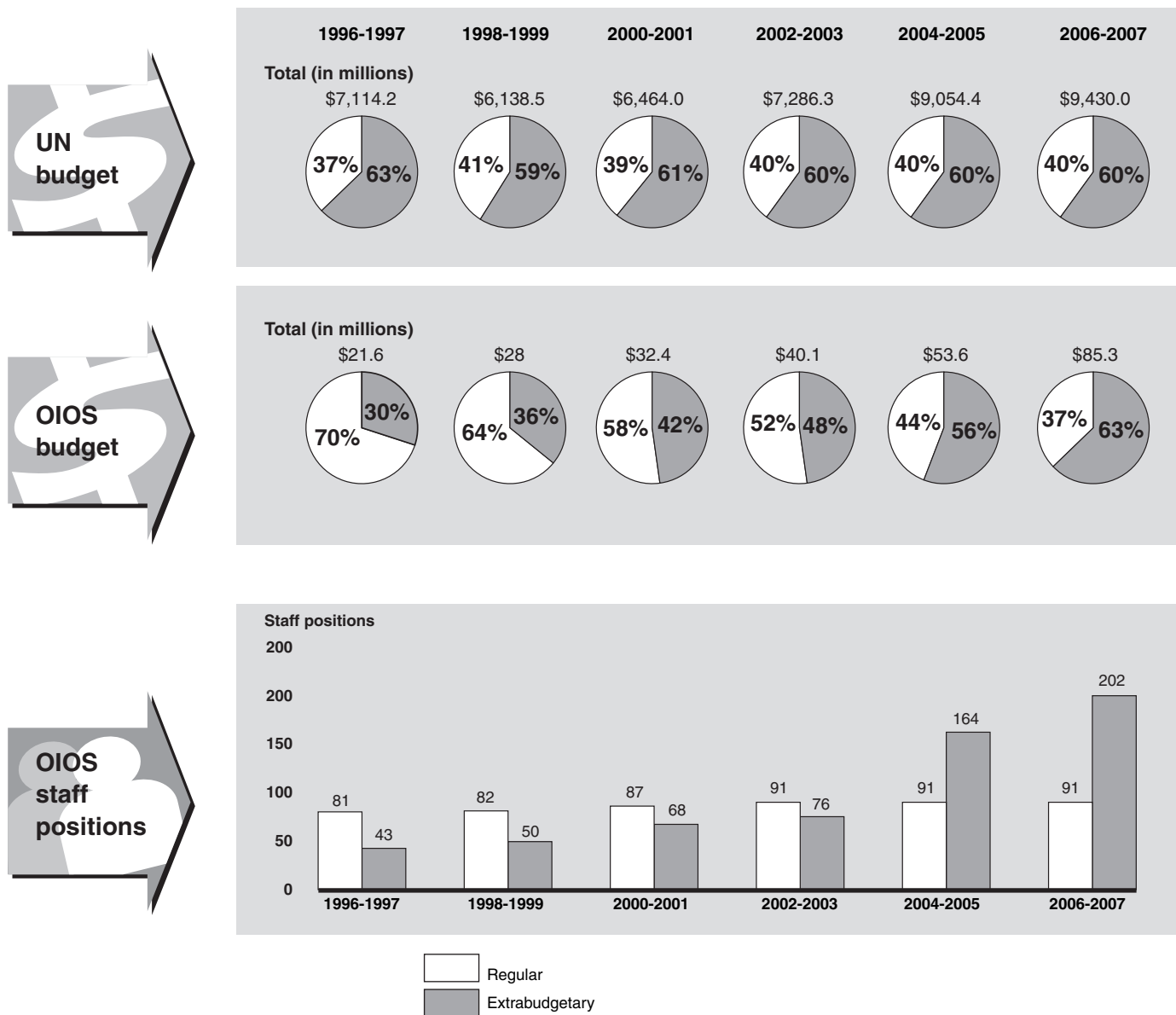
⁸IIA is recognized as the internal audit profession's leader in certification, education, research, and technological guidance. Developed and maintained by the IIA, *The Code of Ethics and Standards* is mandatory guidance considered to be essential to the professional practice of internal auditing. *The 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.

**Funding Arrangements
Hinder OIOS's Flexibility to
Respond to Changing
Circumstances and
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.⁹ 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. 1). 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.

⁹The 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 Criminal 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 1: 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.

UN funding arrangements severely limit OIOS’s flexibility to respond to changing circumstances and reallocate its resources among its multiple funding sources, OIOS locations worldwide, or among its operating

divisions—Internal Audit Divisions I and II; the Investigations Division; and the Monitoring, Evaluation, and Consulting Division—to address changing priorities. In addition, the movement of staff positions¹⁰ or funds between regular and extrabudgetary resources is not allowed. For example, one section in the Internal Audit Division may have exhausted its regular budget travel funds, while another section in the same division may have 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. 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 such situations arise has been impeded by restrictions on the use of staff positions.

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 their permission to examine their operations and 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 timely examination. For example, the practice of allowing the heads of programs the right to deny funding to 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. In some cases, the managers of UN funds and programs have disputed the fees OIOS has charged after investigative services were 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 the investigative services

¹⁰Throughout this testimony, 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.

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.

OIOS Has Not Fully Met Key Elements of International Auditing Standards

OIOS formally adopted the IIA international standards for the professional practice of internal auditing in 2002. Since that time, OIOS has begun to develop and implement the key components of effective oversight. However, the office has yet to fully implement them. Moreover, shortcomings in meeting key components of international auditing standards can serve to undermine the office's effectiveness in carrying out its functions as the UN's main internal oversight body. Effective oversight demands reasonable adherence to professional auditing standards.

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

OIOS has adopted a risk management framework¹¹ to link the office's annual work plans to risk-based priorities, but it has not fully implemented this framework. 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; it also includes client-level risk assessments to identify and prioritize risk areas facing each entity for which OIOS has oversight authority. Although OIOS's framework includes plans to perform client-level risk assessments, as of April 2006, out of 25 entities that comprise major elements of its "oversight universe," only three risk assessments have been completed. As a result, OIOS officials cannot currently 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 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.

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.

¹¹OIOS 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.

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 Independent Inquiry Committee 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 told us that the office does not have an annual report to assess 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.

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, but OIOS does not formally require or systematically track staff training to provide reasonable assurance that all staff are maintaining and acquiring professional skills. UN personnel records show that OIOS staff took a total of 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 applicable to auditors.

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 said 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 officewide database to systematically track all training their staff has taken.

The Control Environment Over UN Procurement Is Weak

UN funds are unnecessarily vulnerable to fraud, waste, abuse, and mismanagement because of weaknesses in the UN's control environment for procurement. Specifically, the UN lacks an effective organizational structure for managing procurement, has not demonstrated a commitment to improving its professional procurement workforce, and has failed to adopt specific ethics guidance for procurement officials.

The UN Lacks an Effective Organizational Structure for Managing Procurement

The UN has not established a single organizational entity or mechanism capable of comprehensively managing procurement. As a result, it is unclear which department is accountable for addressing problems in the UN's field procurement process. While the Department of Management is ultimately responsible for all UN procurement, neither it nor the UN Procurement Service has the organizational authority to supervise peacekeeping field procurement staff to provide reasonable assurance that they comply with UN regulations. Procurement field staff, including the chief procurement officers, instead report to the Peacekeeping Department at headquarters through each mission's chief administrative officer. Although the Department of Management has delegated authority for field procurement of goods and services to the Peacekeeping Department, we found that the Peacekeeping Department lacks the expertise, procedures,

and capabilities needed to provide reasonable assurance that its field procurement staff are complying with UN regulations.

The UN Lacks a Plan to Improve its Professional Procurement Workforce

The UN has not demonstrated a commitment to improving its professional procurement staff in the form of training, a career development path, and other key human capital practices critical to attracting, developing, and retaining a qualified professional workforce. Due to significant control weaknesses in the UN's procurement process, the UN has relied disproportionately on the actions of its staff to safeguard its resources. Given this reliance on staff and their substantial fiduciary responsibilities, management's commitment to maintaining a competent, ethical procurement workforce is a particularly critical element of the UN's internal control environment.

Recent studies indicate that Procurement Service staff and peacekeeping procurement staff lack knowledge of UN procurement policies. Moreover, most procurement staff lack professional certifications attesting to their procurement education, training, and experience. The UN has not established requirements for headquarters and peacekeeping staff to obtain continuous training, resulting in inconsistent levels of training across the procurement workforce. More than half of the procurement chiefs told us that they had received no procurement training over the last year and that their training opportunities and resources are inadequate. All of them said that their staff would benefit from additional training. Furthermore, UN officials acknowledged that the UN has not committed sufficient resources to a comprehensive training and certification program for its procurement staff. In addition, the UN has not established a career path for professional advancement for procurement staff, which could encourage staff to undertake progressive training and work experiences.

The UN Has Not Fully Established Ethics Guidance for Procurement Personnel

The UN has been considering the development of specific ethics guidance for procurement officers for almost a decade, in response to General Assembly directives dating back to 1998. While the Procurement Service has drafted such guidance, the UN has made only limited progress towards adopting it. Such guidance would include a declaration of ethics responsibilities for procurement staff and a code of conduct for vendors.

The UN Has Weaknesses in Key Procurement Processes

We found weaknesses in key UN procurement processes or control activities. These activities consist of processes that are intended to provide reasonable assurance that management's directives are followed and include reviews of high-dollar-value contracts, bid protest procedures, and vendor rosters.

Headquarters Committee on Contracts Lacks Needed Resources

The Chairman and members of the Headquarters Committee on Contracts stated that the committee does not have the resources to keep up with its expanding workload. The number of contracts reviewed by the committee has increased by almost 60 percent since 2003.¹² The committee members stated that the committee's increasing workload was the result of the growth of UN peacekeeping operations, the complexity of many new contracts, and increased scrutiny of proposals in response to recent UN procurement scandals. Concerns regarding the committee's structure and workload have led OIOS to conclude that the committee cannot properly review contract proposals. Without an effective contract review process, the UN cannot provide reasonable assurance that high-value contracts are undertaken in accordance with UN rules and regulations. The committee has requested that its support staff be increased from four to seven, and its chairman has stated that raising the threshold for committee review would reduce its workload.

The UN Has Not Established an Independent Bid Protest Process

The UN has not established an independent process to consider vendor protests, despite the 1994 recommendation of a high-level panel of international procurement experts that it do so as soon as possible. An independent bid protest process is a widely endorsed control mechanism that permits vendors to file complaints with an office or official who is independent of the procurement process. Establishment of such a process could provide reasonable assurance that vendors are treated fairly when bidding and would also help alert senior UN management to situations involving questions about UN compliance. In 1994, the UN General Assembly recognized the advantages of an independent bid protest

¹²In 2005, the committee reviewed 881 contracts valued at \$3 billion (including long-term contracts), while in 2003 it reviewed 558 contracts valued at about \$2.3 billion.

process. Several nations, including the United States, provide vendors with an independent process to handle complaints.¹³

The UN Has Not Updated its Procurement Manual Since 2004

The UN has not updated its procurement manual since January 2004 to reflect current UN procurement policy. As a result, UN procurement staff may not be aware of changes to UN procurement procedures that have been adopted over the past 2 years. Also missing from the procurement manual is a section regarding procurement for construction. In June 2005, a UN consultant recommended that the UN develop separate guidelines in the manual for the planning and execution of construction projects. These guidelines could be useful in planning the UN's future renovation of its headquarters building. A Procurement Service official who helped revise the manual in 2004 stated that the Procurement Service has been unable to allocate resources needed to update the manual since that time.

UN Does Not Consistently Implement Its Process for Helping to Ensure That It Conducts Business with Qualified Vendors

The UN does not consistently implement its process for helping to ensure that it is conducting business with qualified vendors. As a result, the UN may be vulnerable to favoring certain vendors or dealing with unqualified vendors. The UN has long had difficulties in maintaining effective rosters of qualified vendors. In 1994, a high-level group of international procurement experts concluded that the UN's vendor roster was outdated, inaccurate, and inconsistent across all locations. In 2003, an OIOS report found that the Procurement Service's roster contained questionable vendors. In 2005, OIOS concluded that the roster was not fully reliable for identifying qualified vendors that could bid on contracts. While the Procurement Service became a partner in an interagency procurement vendor roster in 2004 to address these concerns, OIOS has found that many vendors that have applied through the interagency procurement vendor roster have not submitted additional documents requested by the Procurement Service to become accredited vendors. In addition, most Peacekeeping Department field procurement officials with whom we spoke stated that they prefer to use their own locally developed rosters instead of the interagency vendor roster. Some field mission procurement staff also stated that they were unable to comply with Procurement Service regulations for their vendor rosters due to the lack of reliable vendor information in underdeveloped

¹³In the United States, vendors may protest to the involved agencies, the U.S. Court of Federal Claims, or GAO. We receive more than 1,100 such protests annually.

countries. OIOS reported in 2006 that peacekeeping operations were vulnerable to substantial abuse in procurement because of inadequate or irregular registration of vendors, insufficient control over vendor qualifications, and dependence on a limited number of vendors.

Objectives, Scope, and Methodology

To conduct our study of UN oversight, we reviewed relevant UN and OIOS reports, manuals, and numerous program documents, as well as international auditing standards such as those of the 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 the UN Office of Internal Oversight Services management officials and staff; representatives of Secretariat departments and offices, as well as the UN funds, programs, and specialized agencies; and the UN external auditors—the Board of Auditors (in New York) and the Joint Inspection Unit (in Geneva). We reviewed relevant OIOS program documents, manuals, and reports. To assess the reliability of OIOS’s funding and staffing data, we reviewed the office’s budget documents and discussed the data with relevant officials. We determined the data were sufficiently reliable for the purposes of this testimony.

To assess internal controls in the UN procurement process, we used an internal control framework that is widely accepted in the international audit community and has been adopted by leading accountability organizations.¹⁴ We assessed the UN’s control environment for procurement, as well as its control activities, risk assessment process, procurement information processes, and monitoring systems. In doing so, we reviewed documents and information prepared by OIOS, the UN Board of Auditors, the UN Joint Inspection Unit, two consulting firms, the UN Department of Management’s Procurement Service, the UN Department of Peacekeeping Operations, and State. We interviewed UN and State officials

¹⁴GAO, *Internal Control: Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: Nov. 1999); Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework* (Sept. 1992).

and conducted structured interviews with the principal procurement officers at each of 19 UN field missions.

Concluding Observations

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. In addition, OIOS's shortcomings in meeting key components of international auditing standards can serve to undermine the office's effectiveness in carrying out its functions as the UN's main internal oversight body. Effective oversight demands reasonable budgetary independence, sufficient resources, and adherence to professional auditing standards. OIOS is now at a critical point, particularly given the initiatives to strengthen UN oversight launched as a result of the UN World Summit in the fall of 2005. In moving forward, the degree to which the UN and OIOS embrace international auditing standards and practices will demonstrate their commitment to addressing the monumental management and oversight tasks that lie ahead. Failure to address these long-standing concerns would diminish the efficacy and impact of other management reforms to strengthen oversight at the UN.

Long-standing weaknesses in the UN's internal controls over procurement have left UN procurement funds highly vulnerable to fraud, waste, abuse, and mismanagement. Many of these weaknesses have been known and documented by outside experts and the UN's own auditors for more than a decade. Sustained leadership at the UN will be needed to correct these weaknesses and establish a procurement system capable of fully supporting the UN's expanding needs.

Recommendations

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, and support OIOS's efforts to more closely adhere to international auditing standards; and
- encourage the UN to establish clear lines of authority, enhance training, adopt ethics guidance, address problems facing its principal contract-review committee, establish an independent bid protest mechanism, and implement other steps to improve UN procurement priorities.

Agency Comments and Our Evaluation

In commenting on the official draft of our report on UN internal oversight, 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 financial regulations and rules are very restrictive, severely limiting OIOS's ability to respond to changing circumstances and to reallocate funds to emerging or high priority areas when they arise.

In commenting on the official draft of our report on UN Procurement, the Department of State stated that it welcomed our report and endorsed its recommendations. The UN did not provide us with written comments.

This concludes my testimony. I would be pleased to take your questions.

Contact and Acknowledgments

Should you have any questions about this testimony, please contact Director Thomas Melito, (202) 512-9601 or melitot@gao.gov. Other major contributors to this testimony were Phyllis Anderson, Assistant Director; Joy Labez, Pierre Toureille, Jeffrey Baldwin-Bott, Joseph Carney, Kristy Kennedy, Clarette Kim, and Barbara Shields.

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