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Weaknesses in Internal Oversight and Procurement Could Affect the Effective Implementation of the Planned Renovation

Statement of Thomas Melito, Director
International Affairs and Trade



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Highlights of [GAO-06-877T](#), a testimony before the Subcommittee on Federal Financial Management, Government Information, and International Security, United States Senate

Why GAO Did This Study

The UN headquarters buildings are in need of renovation. The Capital Master Plan is an opportunity for the organization to renovate its headquarters buildings and ensure conformity with current safety, fire, and security requirements. Estimated by the UN to cost about \$1.6 billion, the renovation will require a substantial management effort by the UN—including the use of effective internal oversight and procurement practices.

Based on recently issued work, GAO (1) examined the extent to which UN funding arrangements for its Office of Internal Oversight Services (OIOS) ensure independent oversight and the consistency of OIOS's practices with key international auditing standards and (2) assessed the UN's procurement processes according to key standards for internal controls.

What GAO Recommends

In prior reports, GAO recommended 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 processes. State and OIOS generally agreed with GAO's overall findings and recommendations. The UN did not provide us with written comments on procurement.

www.gao.gov/cgi-bin/getrpt?GAO-06-877T.

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.

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Weaknesses in Internal Oversight and Procurement Could Affect the Effective Implementation of the Planned Renovation

What GAO Found

The effective implementation of the planned UN renovation is vulnerable due to a range of weaknesses in existing internal oversight and procurement practices. In particular, UN funding arrangements adversely affect OIOS's budgetary independence and compromise OIOS's ability to investigate high-risk areas. In addition, while the UN has yet to finalize a specific procurement process for the UN Capital Master Plan, to the extent that it relies on UN procurement processes, it remains vulnerable to the numerous procurement weaknesses that GAO have previously identified.

First, UN funding arrangements constrain OIOS's ability to operate independently as mandated by the General Assembly and required by international auditing standards. While OIOS is funded by a regular budget and 12 other 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. 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. 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.

While the UN has yet to finalize its Capital Master Plan procurement strategy, to the extent that it relies on the current process, implementation of the Capital Master Plan remains vulnerable to numerous procurement weaknesses. For example, the UN has not established an independent process to consider vendor protests that could alert senior UN officials of failures by procurement staff to comply with stated procedures. Also, the chairman of the UN procurement contract review committee has stated that his committee does not have the resources to keep up with its expanding workload. In addition, the UN does not consistently implement its process for helping to ensure that it is conducting business with qualified vendors. GAO also found that the UN has not demonstrated a commitment to improving its professional procurement staff despite long-standing shortcomings and has yet to complete action on specific ethics guidance for procurement officers.

Chairman Coburn, Ranking Member Carper, and Members of the Subcommittee:

I am pleased to be here today to discuss the United Nations' (UN) internal oversight unit and procurement process in the context of the UN Capital Master Plan (CMP). The planned renovation project represents a unique endeavor on the part of the UN—the first comprehensive renovation of the UN headquarters since the completion of its initial construction in 1952. Currently estimated by the UN to cost about \$1.6 billion, the renovation will require a substantial management effort by the UN—including the use of effective internal oversight and procurement practices.

Several scandals, including those involving the UN's Oil for Food Program and procurement service, have spurred calls for UN management reform. In our review of the Oil for Food Program,¹ we found that management problems allowed the former Iraqi regime to manipulate the program and circumvent sanctions to obtain illicit payments ranging from \$7.4 billion to \$12.8 billion.² The UN's Office of Internal Oversight Services (OIOS) audited some aspects of the Oil for Food program and identified hundreds of weaknesses and irregularities. However, OIOS lacked the resources and independence needed to provide full and effective oversight of this large, costly, and complex UN effort. In addition, experts have called on the UN to correct serious weaknesses in its procurement process for more than a decade, including the lack of an independent process for considering vendor protests and ensuring selection of qualified vendors. However, recent audits and investigations have uncovered evidence of corruption and mismanagement in the UN's procurement activities.

In 2005, UN member states approved an agenda to reform many of the UN's management practices, in particular to strengthen internal oversight and accountability; help ensure ethical conduct; and review budgetary, financial, and human resources policies. Even though UN member states support management reforms, there is considerable disagreement within the General Assembly over the process and implementation of the reforms, which thus far have been slow and uneven.

¹GAO, *United Nations: Lessons Learned from the Oil for Food Program Indicate the Need to Strengthen UN Internal Controls and Oversight Activities*, [GAO-06-330](#) (Washington, D.C.: Apr. 25, 2006).

²The ranges given represent estimates developed by GAO, the Independent Inquiry Committee, and the Iraq Survey Group for 1997 through about early 2003.

Completing the CMP will require the UN to implement effective internal oversight and procurement practices. Accordingly, my statement is based on two reports that we released on these topics in April 2006.³ First, I will focus on the need to strengthen OIOS's budgetary independence and its full implementation of key components for effective oversight. Second, I will also focus on our assessment of the UN's procurement processes according to key standards for internal controls.

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

Effective implementation of the CMP is vulnerable due to a range of weaknesses in existing internal oversight and procurement practices. In particular, current funding arrangements adversely affect OIOS's budgetary independence and compromise its ability to investigate high-risk areas. In addition, while the UN has yet to finalize a specific procurement strategy for the renovation project, to the extent that it relies on current UN processes, implementation of the planned renovation is vulnerable to the procurement weaknesses that we have identified.

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 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

³GAO, *United Nations: Funding Arrangements Impede Independence of Internal Auditors*, [GAO-06-575](#) (Washington, D.C.: Apr. 25, 2006); GAO, *United Nations: Procurement Internal Controls Are Weak*, [GAO-06-577](#) (Washington, D.C.: Apr. 25, 2006).

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. In some instances, high-risk areas have been 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. In our April 2006 report concerning OIOS,⁴ 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. Both the Department of State and OIOS generally agreed with our findings and recommendation.

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. In reviewing the CMP, OIOS reported in August 2005 that it obtained extrabudgetary funds from the CMP for one auditor on a short-term basis, but that the level of funding was not sufficient to provide the oversight coverage intended by the General Assembly.⁵ In addition, OIOS does 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 could undermine its effectiveness in

⁴GAO, *United Nations: Funding Arrangements Impede Independence of Internal Auditors*, [GAO-06-575](#) (Washington, D.C.: Apr. 25, 2006);

⁵United Nations General Assembly, *Report of the Office of Internal Oversight Services on the Capital Master Plan for the period from August 2004 to July 2005 A/60/288* (New York, N.Y.: Aug. 22, 2005).

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. In our April 2006 report on OIOS, we also recommended that the Secretary of State and the Permanent Representative of the United States to the UN work with member states to support OIOS's efforts to more closely adhere to international auditing standards. Both the Department of State and OIOS generally agreed with our findings and recommendation.

While the UN has yet to finalize its CMP procurement strategy, to the extent that it relies on the current process, implementation of the planned renovation is vulnerable to the procurement weaknesses that we have identified. For example, it has not established an independent process to consider vendor protests that could alert senior UN officials of failures by procurement staff to comply with stated procedures. Also, the Chairman of a key UN procurement contract review committee has stated that his committee does not have the resources to keep up with its expanding workload. In addition, the UN does not consistently implement its process for helping to ensure that it is conducting business with qualified vendors, has not demonstrated a commitment to improving its professional procurement staff despite long-standing shortcomings, and has yet to complete action on specific ethics guidance for procurement officers. We also found that the UN has yet to incorporate guidance for construction procurement into its procurement manual. In our April 2006 report on UN procurement,⁶ we recommended that the Secretary of State and the Permanent Representative of the United States to the UN work with member states to encourage the UN to establish an independent bid protest mechanism, address problems facing its principle contract-review committee, implement a process to help ensure that it conducts business with qualified vendors, and to take other steps to improve UN procurement. The Department of State welcomed our report and recommendations. However, the UN did not provide us with written comments.

Background

The UN headquarters buildings are in need of renovation. The original UN headquarters complex, located in New York City and constructed between 1949 and 1952, no longer conforms to current safety, fire and building codes

⁶GAO, *United Nations: Procurement Internal Controls Are Weak*, [GAO-06-577](#) (Washington, D.C.: Apr. 25, 2006).

and does not meet UN technology or security requirements. Over the last 50 years there have been no major renovations or upgrades to the buildings or their systems. For example, the UN headquarters complex lacks fire sprinklers, has a deteriorating window structure, and is vulnerable to catastrophic electrical failures. In September 2005, the headquarters complex was shut down and the staff sent home because a main breaker for electrical power to the top floors of the Secretariat building failed, causing it to fuse to the electrical panel. This failure could have resulted in a major fire.

As host country, the United States financed construction of the original complex by providing the UN with a no-interest loan. The rest of the complex was built between 1960 and 1982 and funded through the UN's regular budget or private donations. In December 2002, the General Assembly endorsed the CMP to renovate the UN headquarters complex and approved funds to further develop the conceptual designs and cost estimate. In May 2003, we reported that the resulting renovation planning was reasonable, but that additional management controls and oversight were needed. Since our last report, the UN has completed design development of the renovation. In April 2006, the UN appropriated \$23.5 million to finance the renovation's preconstruction phase and committed \$77 million to finance the construction of temporary conference space and supplementary office space rental (swing space). However, the General Assembly has not yet decided whether to approve implementation of the CMP.

In a February 2003 resolution, the General Assembly stressed the importance of oversight in implementing the CMP and requested that all relevant oversight bodies, such as OIOS, initiate immediate oversight activities.⁷ In our 2003 report on the CMP,⁸ we noted that OIOS assigned one staff member to begin researching the CMP on a part-time basis. OIOS officials also stated that they had requested funding for OIOS to hire contractors to help evaluate the CMP, project management plan, and

⁷United Nations General Assembly, *Resolution Adopted by the General Assembly, A/RES/57/292* (New York, N.Y.: Feb. 13, 2003).

⁸GAO, *United Nations: Early Renovation Planning Reasonable, but Additional Management Controls and Oversight Will Be Needed*, [GAO-03-566](#) (Washington, D.C.: May 30, 2003).

security upgrades. In July 2005, OIOS reported that it had two auditors reviewing the CMP.⁹

OIOS's authority spans all UN activities under the Secretary-General. 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 Secretariat¹⁰ 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. Our work on the Oil for Food program demonstrates the weakness inherent in OIOS's reliance on extrabudgetary resources. OIOS audited some aspects of the Oil for Food program and identified hundreds of weaknesses and irregularities, but it lacked the resources and independence needed to provide full and effective oversight of this large, costly, and complex UN effort. As the program was implemented, the Oil for Food program was further weakened by inadequate attention to internal controls, including establishing clear responsibility and authority and identifying and addressing program risks.

In addition to oversight, an effective procurement process is one of the keys to success for any large scale construction project. For more than a decade, experts have called on the UN to correct serious weaknesses in its procurement process. In addition, the UN procurement process has been under increasing stress in recent years as procurement spending has more than tripled to keep pace with a rapidly growing peacekeeping program. The UN Department of Management, through its 70-person UN Procurement Service, is ultimately responsible for developing UN procurement policies.

Because the UN is a multilateral institution, our oversight authority does not directly extend to the UN, but instead extends through the United

⁹United Nations General Assembly, *Report of the Office of Internal Oversight Services on the Capital Master Plan for the Period from August 2004 to July 2005 A/60/288* (New York, N.Y.: Aug. 22, 2003).

¹⁰The 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.

States' membership in the organization. In recognition of this factor, we conduct UN-related work only in response to specific requests from committees with jurisdiction over UN matters. 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.

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 state 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. In our April 2006 report concerning OIOS, 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. Both the Department of State and OIOS generally agreed with our findings and recommendation.

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 should 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,¹¹ 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

¹¹IIA 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.

financial regulations and the rules of an international institution should not restrict an audit organization from fulfilling its mandate.

Funding Arrangements Hinder OIOS's Ability to Respond to Changing Circumstances and to Reallocate Resources to Address High-Risk Areas

UN funding arrangements severely limit OIOS's ability to respond to changing circumstances and reallocate its resources among its multiple funding sources, OIOS locations worldwide, or 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 positions¹² 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.

Since 1996, an increasing share of OIOS's total budget is comprised of extrabudgetary resources. OIOS's regular budget and extrabudgetary resources increased in nominal terms from \$21.6 million in fiscal biennium 1996-1997 to \$85.3 million in fiscal biennium 2006-2007. Over that period, OIOS's extrabudgetary funding increased in nominal terms, from about \$6.5 million in fiscal biennium 1996-1997 to about \$53.7 million in fiscal biennium 2006-2007. The majority of OIOS's staff (about 69 percent) is funded with extrabudgetary resources, which increased due to extrabudgetary resources for audits and investigations of peacekeeping operations, including issues related to sexual exploitation and abuse.

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,

¹²Throughout 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.

UN entities could avoid OIOS audits or investigations, and high-risk areas could potentially be excluded from timely examination.¹³ 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. Moreover, in some cases, fund and program managers have disputed fees charged by OIOS for investigative services rendered. For example, 40 percent of the \$2 million billed by OIOS after it completed its work is currently in dispute, and since 2001, less than half of the entities have paid OIOS in full for investigative services it has provided. According to OIOS officials, the office has no authority to enforce payment for services rendered, and there is no appeal process, no supporting administrative structure, and no adverse impact on an agency that does not pay or pays only a portion of the bill.

GAO's Recommendation on OIOS Independence

In our April 2006 report concerning OIOS, 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. In commenting on the official draft of that report, OIOS and the Department of State (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 findings 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.

¹³Because the General Assembly has not approved funding for implementation of the CMP, there has been no decision on the level of OIOS funding for the CMP.

OIOS Has Not Fully Met Key Elements of International Auditing Standards

IIA Standards for

Managing the internal audit activity – planning

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

Source: IIA.

OIOS formally adopted the Institute for Internal Auditors' (IIA) international standards for the professional practice of internal auditing in 2002. Since then, 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 could 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. In our April 2006 report on OIOS, we also recommended that the Secretary of State and the Permanent Representative of the United States to the UN work with member states to support OIOS's efforts to more closely adhere to international auditing standards.

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

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.

OIOS has adopted a risk management framework¹⁴ 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 for prioritizing the allocation of resources to 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 had 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

¹⁴OIOS 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.

2008, at least 50 percent of their work is based on a systematic risk assessment.

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

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.

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

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. For the CMP, OIOS reported that it had extrabudgetary funds from the CMP for one auditor on a short-term basis, but that the level of funding was not sufficient to provide the oversight coverage intended by the General Assembly.¹⁵ To provide additional oversight coverage, OIOS

¹⁵United Nations General Assembly, *Report of the Office of Internal Oversight Services on the Capital Master Plan for the Period from August 2004 to July 2005 A/60/288* (New York, N.Y.: Aug. 22, 2005).

assigned an additional auditor exclusively to the CMP, using funds from its regular budget.¹⁶

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.

Although OIOS provides these professional development opportunities, it 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 office wide database to systematically track all training taken by their staff.

GAO's Recommendation on OIOS Meeting Key Elements of International Auditing Standards

In our April 2006 report on OIOS, we also recommended that the Secretary of State and the Permanent Representative of the United States to the UN work with member states to support OIOS's efforts to more closely adhere to international auditing standards. In commenting on the official draft of that report, OIOS and State agreed with our overall conclusions and recommendations. OIOS stated that observations made in our report were consistent with OIOS's internal assessments and external peer reviews.

¹⁶Because the General Assembly has not approved funding for implementation of the CMP, there has been no decision on the level of funding OIOS would receive for oversight of the CMP during the implementation phase.

The Current UN Procurement Process Contains Numerous Weaknesses

While the UN has yet to finalize its CMP procurement strategy, to the extent that it relies on current UN processes, implementation of the planned renovation is vulnerable to the procurement weaknesses that we have identified. We have identified problems affecting the UN's bid protest process, headquarters contract review committee, vendor rosters, procurement workforce, ethics guidance for procurement personnel, and procurement manual. In our April 2006 report on UN procurement, we recommended that the Secretary of State and the Permanent Representative of the United States to the UN work with member states to encourage the UN to establish an independent bid protest mechanism, address problems facing its principal contract-review committee, implement a process to help ensure that it conducts business with qualified vendors, and to take other steps to improve UN procurement.

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.¹⁷ Such a process would 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. 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. The General Assembly endorsed the principle of independent bid protests in 1994 when it recommended for adoption by member states a model procurement law drafted by the UN Commission on International Trade Law.¹⁸ Several nations, including the United States, provide vendors with an independent process to handle complaints.¹⁹

The UN's lack of an independent bid protest process limits the transparency of its procurement process by not providing a means for a vendor to protest the outcome of a contract decision to an independent

¹⁷United Nations, *High Level Expert Group Procurement Study Report* (New York, December 1994).

¹⁸See GA Res. 49/54, UN Doc. A/Res/49/54; UN Commission on International Trade Law (UNCITRAL), *Model Law on Procurement of Goods, Construction, and Services* (1994), ch. 6.

¹⁹In the United States, vendors may protest to the involved agencies, the U.S. Court of Federal Claims, or GAO. GAO receives more than 1,100 such protests annually.

official or office. At present, the UN Procurement Service directs its vendors to file protests to the Procurement Service chief and then to his or her immediate supervisor. If handled through an independent process, vendor complaints could alert senior UN officials and UN auditors to the failure of UN procurement staff to comply with stated procedures. As a result of recent findings of impropriety involving the Procurement Service, the United Nations hired a consultant to evaluate the internal controls of its procurement operations. One of the consultant's conclusions was that the UN needs to establish an independent bid protest process for suspected wrongdoing that would include an independent third-party evaluation as well as arbitration, due process, and formal resolution for all reports.

The Headquarters Contract Review Committee's Workload Is Increasing Faster Than Its Resources

While UN procurement has increased sharply in recent years, the size of the UN's Headquarters Committee on Contracts and its support staff has remained relatively stable. The committee's chairman and members told us 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 2003.²⁰ The committee members stated that the committee's increasing workload was the result in part of the complexity of many new contracts and increased scrutiny of proposals in response to recent UN procurement scandals.

The committee is charged with evaluating proposed contracts worth more than \$200,000 and advising the Department of Management as to whether the contracts are in accordance with UN Financial Regulations and Rules and other UN policies. However, concerns regarding the committee's structure and workload have led UN auditors to conclude that the committee cannot properly review contract proposals. It may thus recommend contracts for approval that are inappropriate and have not met UN regulations. Earlier this year, OIOS reiterated its 2001 recommendation that the UN reduce the committee's caseload and restructure the committee "to allow competent review of the cases."

²⁰In 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.

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. OIOS later concluded that as of 2005 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.

The UN Has Not Demonstrated a Commitment to Improving Its Professional Procurement Workforce

The UN has not demonstrated a commitment to improving its professional procurement staff through training, establishment of 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.

Recent studies indicate that Procurement Service 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 procurement staff to obtain continuous training, resulting in inconsistent levels of training across the procurement workforce. 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. Doing so 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 toward adopting it. Such guidance would include a declaration of ethics responsibilities for procurement staff and a code of conduct for vendors.

The UN Has Not Included Guidance on Construction Procurement in its Procurement Manual

The UN has yet to include guidance for construction procurement into its procurement manual. 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 and executing CMP procurement. Moreover, the UN has not updated its procurement manual since January 2004 to reflect current UN procurement policy. As a result, procurement staff may not be aware of changes to procurement procedures that the UN has adopted over the past 2 years. 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.

GAO's Recommendation to Address Weaknesses in UN Procurement

In our April 2006 report on UN procurement,²¹ we recommended that the Secretary of State and the Permanent Representative of the United States to the UN work with member states to encourage the UN to establish an independent bid protest mechanism, address problems facing its principle contract-review committee, implement a process to help ensure that it conducts business with qualified vendors, and to take other steps to improve UN procurement. In commenting on the official draft of this report, the Department of State stated that it welcomed our report and endorsed its recommendations. The UN did not provide us with written comments.

Objectives, Scope, and Methodology

To conduct our study of UN oversight, we reviewed relevant UN and OIOS reports, manuals, and program documents, as well as the international auditing standards of the IIA and the International Organization of Supreme

²¹GAO, *United Nations: Procurement Internal Controls Are Weak*, [GAO-06-577](#) (Washington, D.C.: Apr. 25, 2006).

Auditing Institutions. 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 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.²² 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 Department of Management’s Procurement Service, the Department of Peacekeeping Operations, and State. We interviewed UN and State officials and conducted structured interviews with the principal procurement officers at each of 19 UN field missions.

Concluding Observations

If implemented, the CMP will be a large and unique endeavor for the UN. Effective internal oversight and management of the procurement process will be necessary for the successful completion of the project. However, weaknesses in internal oversight and procurement could impact implementation of the CMP. Recent UN scandals, particularly in the Oil for Food program, demonstrate the need for significant reforms in these areas.

²²GAO, *Internal Control: Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999); Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework* (September 1992).

Although OIOS has a mandate establishing it as an independent oversight entity and to conduct oversight of the CMP, 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 could 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 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.

While the UN has yet to finalize its CMP procurement strategy, to the extent that it relies on the current process, we have identified numerous weaknesses with the existing procurement process that could impact implementation of the CMP. Long-standing weaknesses in the UN's procurement office have left UN procurement funds highly vulnerable to fraud, waste, and abuse. Many of these weaknesses have been identified 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.

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 me at (202) 512-9601 or melitot@gao.gov. Other major contributors to this testimony were Phyllis Anderson and Maria Edelstein, Assistant Directors; Joy Labez, Pierre Toureille, Valérie L. Nowak, Jeffrey Baldwin-Bott, Michaela Brown, Joseph Carney, Debbie J. Chung, Kristy Kennedy, Clarette Kim, J.J. Marzullo, and Barbara Shields.

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