

**UNITED NATIONS REFORM: IMPROVING INTERNAL
OVERSIGHT WITHIN THE UN**

HEARING
BEFORE THE
COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES
ONE HUNDRED NINTH CONGRESS

SECOND SESSION

APRIL 27, 2006

Serial No. 109-170

Printed for the use of the Committee on International Relations



Available via the World Wide Web: http://www.house.gov/international_relations

U.S. GOVERNMENT PRINTING OFFICE

27-227PDF

WASHINGTON : 2006

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2250 Mail: Stop SSOP, Washington, DC 20402-0001

COMMITTEE ON INTERNATIONAL RELATIONS

HENRY J. HYDE, Illinois, *Chairman*

JAMES A. LEACH, Iowa	TOM LANTOS, California
CHRISTOPHER H. SMITH, New Jersey, <i>Vice Chairman</i>	HOWARD L. BERMAN, California
DAN BURTON, Indiana	GARY L. ACKERMAN, New York
ELTON GALLEGLY, California	ENI F.H. FALEOMAVAEGA, American Samoa
ILEANA ROS-LEHTINEN, Florida	DONALD M. PAYNE, New Jersey
DANA ROHRBACHER, California	SHERROD BROWN, Ohio
EDWARD R. ROYCE, California	BRAD SHERMAN, California
PETER T. KING, New York	ROBERT WEXLER, Florida
STEVE CHABOT, Ohio	ELIOT L. ENGEL, New York
THOMAS G. TANCREDO, Colorado	WILLIAM D. DELAHUNT, Massachusetts
RON PAUL, Texas	GREGORY W. MEEKS, New York
DARRELL ISSA, California	BARBARA LEE, California
JEFF FLAKE, Arizona	JOSEPH CROWLEY, New York
JO ANN DAVIS, Virginia	EARL BLUMENAUER, Oregon
MARK GREEN, Wisconsin	SHELLEY BERKLEY, Nevada
JERRY WELLER, Illinois	GRACE F. NAPOLITANO, California
MIKE PENCE, Indiana	ADAM B. SCHIFF, California
THADDEUS G. McCOTTER, Michigan	DIANE E. WATSON, California
KATHERINE HARRIS, Florida	ADAM SMITH, Washington
JOE WILSON, South Carolina	BETTY MCCOLLUM, Minnesota
JOHN BOOZMAN, Arkansas	BEN CHANDLER, Kentucky
J. GRESHAM BARRETT, South Carolina	DENNIS A. CARDOZA, California
CONNIE MACK, Florida	RUSS CARNAHAN, Missouri
JEFF FORTENBERRY, Nebraska	
MICHAEL McCAUL, Texas	
TED POE, Texas	

THOMAS E. MOONEY, SR., *Staff Director/General Counsel*

ROBERT R. KING, *Democratic Staff Director*

BARTON FORSYTH, *Counsel*

JEAN CARROLL, *Full Committee Hearing Coordinator*

CONTENTS

	Page
WITNESS	
The Honorable David M. Walker, Comptroller General of the United States, U.S. Government Accountability Office	7
LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING	
The Honorable David M. Walker: Prepared statement	11
APPENDIX	
The Honorable Russ Carnahan, a Representative in Congress from the State of Missouri: Prepared statement	45
Responses from Comptroller General David M. Walker to questions submitted for the record by the Honorable J. Gresham Barrett, a Representative in Congress from the State of South Carolina	46

UNITED NATIONS REFORM: IMPROVING INTERNAL OVERSIGHT WITHIN THE UN

THURSDAY, APRIL 27, 2006

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Committee met, pursuant to notice, at 1:18 p.m., in room 2172, Rayburn House Office Building, Hon. Henry J. Hyde (Chairman of the Committee) presiding.

The CHAIRMAN. The Committee will come to order.

Today the Committee convenes to discuss the need for reform at the United Nations, particularly in light of the Government Accountability Office's (GAO) most recent reports on UN procurement and oversight.

This hearing continues our ongoing oversight of the UN. A month ago, Mr. Lantos and I led a delegation to the UN to meet with the Secretary-General, permanent representatives of the Security Council and representatives of the G-77.

While our meetings were productive, I remain convinced that Congress must press forward with legislation that links U.S. contributions to the UN to essential UN reform. Furthermore, I believe that reform efforts at the UN are best advanced by a unified American position. Therefore, I am now working with Mr. Lantos on legislation that gives the Administration flexibility to withhold dues to enforce UN reforms. My hope is that cooperatively we can catalyze the vital reforms that we were unable to achieve individually.

The need for legislative action has never been more pressing. As the most recent GAO reports document, the UN's Oil-for-Food scandal was not an isolated abuse, but a symptom of a larger contagion that infects both procurement and oversight within the UN. Most recently, a scandal surfaced within the UN Post Office where officials sold millions of dollars in UN stamps and original artwork without authorization and without observing proper bidding procedures. It remains unclear whether the proceeds from the sales were properly accounted for. The potential loss to the UN could be as high as \$344 million. These endless abuses are financed in large part by American taxpayers.

The GAO reports and numerous previous reports from other institutions trace the origin of these scandals to weak oversight and procurement controls. GAO highlighted a lack of coordination among oversight bodies, a lack of budgetary independence within the UN Office of Internal Oversight (OIOS), and a lack of budgetary flexibility that prevents OIOS from auditing high-risk pro-

grams as problems arise. The result, the GAO concludes, is that, and I quote:

“UN funds are unnecessarily vulnerable to waste, fraud, and abuse because the UN lacks an effective organizational structure for managing procurement, has not demonstrated a commitment to a professional procurement workforce, and has failed to adopt specific ethics guarantees for procurement officials.”

The UN’s own attempts at reform have been inadequate. The most glaring example is the newly created human rights commission. Despite all the pontifications calling for a reformed human rights body, and despite many admirable efforts, the resolution to create the new body fell far short of expectations. As a result, the new commission is proceeding without U.S. participation. If the human rights resolution, one of the most important of the reform process, is indicative of the course the General Assembly will follow on future reform measures, I fear for the entire reform process.

Turning to management reforms, Secretary-General Kofi Annan recently released a report recommending numerous changes within the Secretariat, including vesting new authorities in the Deputy Secretary-General, revamping the budgeting process, recruiting and staffing initiatives, and outsourcing certain administrative services. The G-77 recently moved to block these vital reforms, leaving their future uncertain.

Furthermore, it has been suggested that these reforms will come with a price tag of over \$500 million. With the current UN biennium budget topping \$3.8 billion, these reforms must be financed from existing resources and through corresponding offsets.

Meanwhile, brazen corruption in UN procurement shocks the conscience of everyone paying attention. The January release of an OIOS peacekeeping procurement report illustrates that corruption has risen to crisis levels. Crimes exposed by the investigations into the Oil-for-Food Program have been compounded by a procurement department adrift in fraud, waste, negligence, and abuse of authority.

According to the UN’s own internal investigation, it is estimated that nearly \$300 million have been lost. The UN report concludes that the likelihood of recurrence of fraud and mismanagement is almost certain under present conditions.

The new GAO report confirms and expounds upon these conclusions. But will the UN act in light of these findings? In the words of the OIOS, “Despite numerous recommendations by OIOS in past audit reports, management has failed to establish accountability where irregularities occurred.”

This has led to a culture of impunity. A disturbing portrait has been exposed, revealing corruption on a larger scale than first thought. Accordingly, we have many issues to cover today. I look forward to hearing from our distinguished witness, United States Comptroller General David Walker.

And I now turn to my good friend, Mr. Faleomavaega, for such remarks as he may wish to offer before we get to General Walker.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman.

Mr. Lantos, our Senior Ranking Member on this side of the aisle, expresses his deep regrets for not being here because of a conflict in schedule. So he has asked me to represent our side of the aisle in this important hearing that you have called.

Thank you also, Mr. Chairman, for the recent trip that we had taken to the United Nations and meeting with Ambassador Bolton and members of the United States Mission of the United Nations, as well as the opportunity of also having to meet with our Secretary-General Kofi Annan and members of his staff regarding questions of accountability.

Mr. Chairman, I also want to welcome the Comptroller General of the United States, Mr. David Walker. We are always pleased to have you, and I hope this meeting is the first of many when we can hear from you on important oversight issues.

Mr. Chairman, we all agree that the United Nations must be the most accountable organization possible. Not only does the U.S. taxpayer demand it, but every citizen of the world requires it. Whether you are a vulnerable child on the streets of Monrovia or a well-heeled international businessman, we all deserve a United Nations that is more effective, more transparent, and more accountable than it has been in the past.

Unfortunately, the millions in United Nations funds that were apparently stolen by Mr. Yakovlev, an employee of the United Nations procurement office, and his cronies in the service of the most base form of personal greed, have unfairly cast a black cloud over thousands of hard-working United Nations employees. Many of these international civil servants selflessly sacrifice comfort and safety to advance humanitarian interests and security in all of the world's hot spots. It is absolutely critical to the United States and global interests that critical controls be established so that the black cloud that is hanging over the UN can be lifted and confidence in the UN and its thousands of hard-working officers can be restored.

Indeed, if the United Nations is to help make progress in stopping the genocide in Darfur or restraining Iran's nuclear ambitions, it will need all the credibility it can possibly muster. That is why I am pleased that the United Nation's Secretary-General Kofi Annan and the Under Secretary-General Chris Burnham have demonstrated that they will not accept the development of a culture of corruption. Together, they have taken far reaching steps to strengthen accountability at the United Nations.

At the Secretary-General's recommendation, the UN has endorsed a new independent audit advisory committee as recommended by this Committee, has increased resources for the existing audit office, the Office of Internal Oversight Services, or OIOS, and has engaged with Pricewaterhouse to carry out a complete review of that office with the view of making recommendations to strengthen that office.

We are also looking forward to Pricewaterhouse's conclusions and the recommendations of the eminent Steering Committee to which Pricewaterhouse reports, and I urge that we send these reports to Pricewaterhouse immediately so that they may consider these recommendations without delay.

And after reading OIOS's conclusions that there was substantial evidence of abuse, Under Secretary Chris Burnham has launched an unprecedented review of UN peacekeeping procurement including a forensic audit and an examination of internal controls by Deloitte & Touche. An independent investigation is now underway by the EU's top fraud investigator, who is compiling information on possible wrongdoers including eight members of the UN staff who have been placed on leave. The UN is cooperating with state and federal investigators as well as investigators in the U.K., who are trying to determine whether there was criminal wrongdoing.

All this makes clear that the Secretary-General needs additional authority to deal with rogue employees who are so difficult to fire under the current system. I strongly hope that the UN's internal justice redesigned panel looks at all the issues on the table including those outlined in the GAO's reports.

Mr. Chairman, I understand that the UN Audit Office fully agrees with the conclusions of this GAO report on obstacles to its performance, and I congratulate the GAO on the contributions it is making to the UN reform process.

Finally, Mr. Chairman, this is the Secretary-General's final term. We are now beginning to discuss in earnest who the next Secretary-General may be. The reports published today make it quite clear that the next Secretary-General must have significant experience and interest in management and reform issues, or all the work that Kofi Annan and his team have accomplished will be lost. I strongly urge the Administration to consider this as they engage in this conversation with our friends and allies.

I note with interest also, Mr. Chairman, the GAO report is a key criticism of the Administration for failing to fill for 13 months now the post of Ambassador for Administration and Management in New York, concluding that this lapse resulted in a missed opportunity for the United States in the formation of the UN Management Reform Agenda agreed upon at the World Summit in 2005. I would hope and I am sure that Mr. Walker would expand on this as part of the report that was submitted by the GAO.

I also have an article here that was just recently released by the Associated Press, Mr. Chairman, I would like to submit for the record. It is entitled, "U.S. Commitment to UN Reform Questioned."

[The information referred to follows:]

April 27, 2006

U.S. Commitment to U.N. Reform Questioned

By THE ASSOCIATED PRESS

Filed at 4:53 a.m. ET

UNITED NATIONS (AP) -- Congressional investigators have raised questions about the United States' commitment to U.N. reform, saying the State Department didn't fill a senior-level job connected to the issue for more than a year, according to a report obtained Thursday.

The report from the Government Accountability Office said the United States may have limited its own influence by leaving the position of U.S. ambassador for management reform vacant for 13 months -- even as John Bolton, U.S. ambassador to the United Nations, repeatedly stressed that the world body was in urgent need of reform.

The post, which was empty during a September 2005 summit in which world leaders agreed to a raft of reforms, was filled in March.

"This key vacancy represents a missed opportunity for the United States in the formation of the U.N. management reform agenda agreed upon at the World Summit in 2005," said the draft report, obtained by The Associated Press. "As a result ... the U.S. Mission had limited capacity to influence reform."

The findings were made as part of a GAO report requested by Rep. Henry Hyde, R-Ill., and Sen. Norm Coleman, R-Minn., two leading U.S. critics of the United Nations. They both lead congressional committees that have devoted numerous hearings to allegations of fraud and corruption in the U.N. oil-for-food program for Iraq.

U.N. reform is back in the spotlight with the United States, the European Union and other key U.N. budget contributors battling with developing nations over the fate of several proposals put forward by Secretary-General Kofi Annan.

Key contributors have warned of a looming budget crisis if they don't get the reforms they seek, while poorer nations have accused them of trying to ram through changes that would put more power in the hands of wealthy governments.

The GAO report's main purpose was to scrutinize the U.N. internal watchdog, the Office of Internal Oversight Services. The report found that the OIOS' lack of independence severely weakens its ability to investigate alleged wrongdoing.

"By denying OIOS funding, U.N. entities can avoid, and have avoided, OIOS audits, and high-risk areas can and have been excluded from adequate examination," the report said.

Those findings largely echo several previous investigations from both within and outside the U.N. system. Annan himself has acknowledged that OIOS' independence must be strengthened, and doing so is a key element of a sweeping reform package he has proposed.

"We put forward a number of proposals to strengthen OIOS that member states need to act upon," said Annan's spokesman, Stephane Dujarric.

The GAO report was to be released publicly Thursday. Hyde, chairman of the House International Relations Committee, planned a hearing to discuss the findings and a companion GAO report that found grave flaws in the U.N. office for procuring goods and services.

In a statement sent to The Associated Press, Hyde limited his comments to the U.N. flaws and did not comment on the vacancy.

"As these GAO reports document, the U.N.'s oil-for-food scandal was not an isolated abuse, but a symptom of a larger contagion that infects both procurement and oversight within the U.N.," Hyde said.

The conclusions on procurement were also largely known, and are the subjects of U.N. investigations and reform initiatives.

The GAO found that OIOS did not meet the international auditing standards it has adopted. Neither did the watchdog have sufficient money or even a way of figuring out where it should add more staff.

Yet it also cautioned the United States against withholding budget funds for OIOS for fear that doing so would jeopardize its independence. While the United States has not threatened to hold back OIOS funds, it has warned of the possibility of not paying its U.N. dues unless the world body enacts a series of management reforms.

Mr. FALCOMAVAEGA. And with that, Mr. Chairman, I look forward to hearing from our Comptroller General, Mr. Walker, and again thank him for his presence and his outstanding services to our country in holding this very responsible position, and the tremendous work that he and the members of his staff have done for our country and especially for the Office of the Comptroller General.

Thank you, Mr. Chairman.

The CHAIRMAN. Without objection, so ordered. The Chair will entertain opening statements, if there are any, from the Members and in the order in which they appeared for the hearing.

Mr. Leach.

Mr. LEACH. No opening statement.

The CHAIRMAN. Mr. Schiff.

Mr. SCHIFF. No. Thank you, Mr. Chairman.

The CHAIRMAN. Ms. Lee.

Ms. LEE. Mr. Chairman, I will just revise and extend my remarks.

The CHAIRMAN. Very well.

Well, I welcome our witness, the Comptroller General, to the Committee this afternoon.

David Walker became the seventh Comptroller General of the United States on November 9, 1998. As Comptroller General, Mr. Walker is the Nation's Chief Accountability Officer and head of the United States Government Accountability Office. Before his appointment as Comptroller General, Mr. Walker had extensive executive-level experience in both government and private industry.

He currently serves as Chair of the United States Intergovernmental Audit Forum at the Center for Continuous Auditing, and as a principal of the United States Joint Financial Management Improvement Program. He is on the board of the International Organization of Supreme Audit Institutions and various other educational and non-profit entities.

Mr. Walker, please proceed.

THE HONORABLE DAVID M. WALKER, COMPTROLLER GENERAL OF THE UNITED STATES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. WALKER. Chairman Hyde, Ranking Member Faleomavaega, other Members of the Committee, it is a pleasure to be before you today to be able to discuss United Nations reforms in the context

of improving UN internal oversight and strengthening internal controls and processes over its procurement system.

With your permission, Mr. Chairman, if my entire statement could be included in the record, I will summarize the highlights.

The CHAIRMAN. Without objection.

Mr. WALKER. Thank you.

I would like to thank this Committee for your continued interest in our work on the United Nations. As you know, because the UN is a multilateral institution, GAO's oversight authority does not extend directly to the UN, but instead does so through the U.S. membership in the organization. Thus, we only do UN-related work at the specific request of Committees with jurisdiction over UN matters, including this Committee.

As the largest financial contributor to the United Nations, which has a total budget of about \$1.6 billion in 2006, obviously the United States has a strong interest in UN management reforms in order to combat corruption, improve economy efficiency and effectiveness. 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, UN member states approved an agenda to reform many of the UN's management practices, including strengthening internal oversight and accountability and improving procurement practices.

Even though UN member states support management reforms, there has been considerable disagreement within the General Assembly over the process and the implementation of the reforms which thus far has been slow and uneven. And it is my understanding that, as I speak this morning, the fifth committee is meeting at the UN to discuss these reforms.

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 serve to compromise its ability to investigate high-risk areas. In addition, weaknesses in the control environment and UN procurement processes leave UN funds vulnerable to fraud, waste, and abuse.

Specifically, the General Assembly mandate creating the OIOS calls for it to be operationally independent. In addition, international auditing standards that have been adopted by the OIOS call for a certain degree of independence. However, OIOS's independence is impaired for two primary reasons. 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 to reallocate resources among revenue streams, locations, and operating divisions. As a result, OIOS cannot always deploy the resources necessary to address current and emerging high-risk areas that may emerge after its budget is approved.

Secondly, OIOS is dependent upon UN funds and programs for resources for the services that it provides. OIOS must obtain permission to perform audits or investigations from the managers of

funds and programs, and they must negotiate the terms of work and payment for those services that are provided.

Moreover, these entities have the right to deny funding for the work that OIOS proposes. By denying OIOS funding, UN entities can avoid any oversight by OIOS and high-risk areas can be excluded from timely examination. Candidly, the Oil-for-Food situation is a *prima facie* example of some of the “what can happen” due to the current weaknesses that exist.

Although OIOS has begun to implement key components of effective oversight, some of their audit practices fall short of meeting international auditing standards, specifically, that while they develop an annual work plan, it has not been fully implemented in the context of a risk management framework. There is a need to periodically assess risk and to allocate resources appropriately.

OIOS annual reports do not provide an overall assessment of risk exposures and control issues facing the UN organization as a whole. On 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 to help justify budgetary requests. And, finally, OIOS has no mandatory training curriculum for staff to develop and maintain their expertise.

The control environment over the UN’s procurement activities is also weak. Specifically, the UN has not established a single organizational entity or mechanism capable of effectively and comprehensively managing its procurement practices. 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, retaining, and motivating a top-flight professional workforce.

The UN has not adopted a full range of new ethics guidance for procurement officials despite directives from the General Assembly in 1998 and 2005. 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 remain relatively stable. Committee Members stated that they do not have the resources necessary to keep pace with the expanding workload.

The UN has not established an independent process to consider vendor protest despite a 1994 recommendation by a high-level panel of international procurement experts to do so as prudently possible. The UN has not updated its procurement manual since 2004 to reflect current UN procurement policy.

Further, the UN does not consistently implement its processes for helping to ensure that it is conducting business solely with qualified vendors.

In summary, our two reports that were issued today—as you know, Mr. Chairman, I have copies here and the Members have been provided copies. In those two reports we recommended that the United States Secretary of State and the Permanent Representative of the United States to the UN work with member states to, first, support budgetary independence for OIOS and OIOS’s efforts to more closely adhere to international auditing standards; and, second, to encourage the UN to establish clear lines of authority,

enhance training, adopt ethics guidance, address problems facing its principal contracts review committee, establish an independent bids protest mechanism, and implement certain other steps to improve UN procurement practices.

In closing, Mr. Chairman and Members of the Committee, let me note that I personally know Director Inga-Britt Ahlenius, our Under Secretary, who was head of OIOS. She was formerly Chair of the Supreme Audit Institution of Sweden. And in addition to being on the board for International Auditor Generals, I am also head of strategic planning. So I have had the opportunity to work with Inga-Britt Ahlenius for a number of years. She is a capable and tough professional, and I know that she is dedicated to doing her part. However, these issues need to be addressed in order for anybody to be successful and effective in that important role and function.

Thank you, Mr. Chairman. I would be happy to answer your questions and those of the Committee Members.

[The prepared statement of Mr. Walker follows:]

United States Government Accountability Office

GAO

Testimony
Before the Committee on International
Relations, House of Representatives

For Release on Delivery
Expected at 1:00 p.m. EDT
Thursday, April 27, 2006

UNITED NATIONS

**Internal Oversight and
Procurement Controls and
Processes Need
Strengthening**

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



GAO-06-701T

GAO
Accountability Integrity Reliability

Highlights

Highlights of GAO-06-701, 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 concern 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/gettr?GAO-06-701

To view the full product, including the scope and methodology, click on the link above. For more information, contact Thomas Melito at (202) 512-9801 or melito@gao.gov.

April 2006

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 staffing levels, 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,⁵ 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.

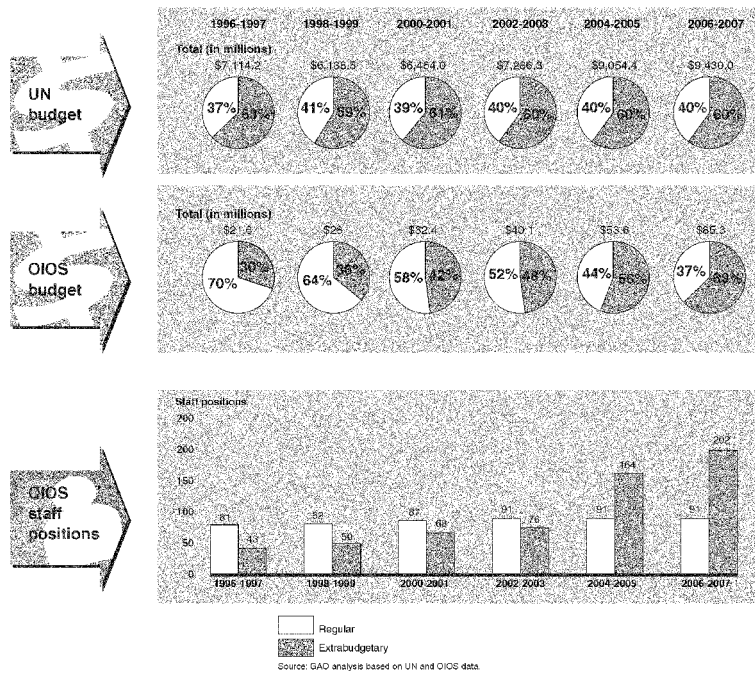
⁵IIA is recognized as the internal audit profession's leader in certification, education, research, and technological guidance. Developed and maintained by the IIA, *The Code of Ethics and Standards* is mandatory guidance considered to be essential to the professional practice of internal auditing. *The 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



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 positions¹⁹ 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

¹⁹Throughout 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.

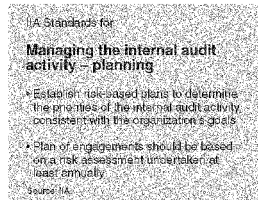
it has provided. According to OIOS officials, the office has no authority to enforce payment for services rendered, and there is no appeal process, no supporting administrative structure, and no adverse impact on an agency that does not pay or pays only a portion of the bill.

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.

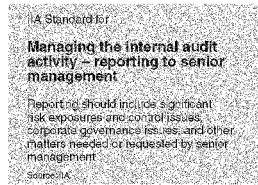
OIOS Has Developed Annual Work Plans, but Has Not Fully Implemented a Risk Management Framework

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.



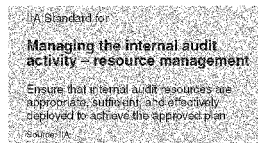
¹¹OIOS defines risk management as the systematic approach to identifying, assessing, and acting on the probability that an event or action may adversely affect the organization.

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



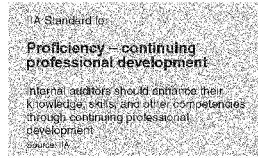
Although OIOS's annual reports contain references to risks facing OIOS and the UN organization, the reports do not provide an overall assessment of the status of these risks or the consequence to the organization if the risks are not addressed. For instance, in February 2005, the Independent Inquiry 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.

OIOS Offers Training Opportunities, but Does Not Require or Systematically Track Continuing Professional Development



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 598 contracts valued at about \$2.3 billion.

process. Several nations, including the United States, provide vendors with an independent process to handle complaints.¹⁵

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

¹⁵In 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/AIM1-00-21.3.1 (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.

GAO's Mission	The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.
Obtaining Copies of GAO Reports and Testimony	The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."
Order by Mail or Phone	<p>The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:</p> <p>U.S. Government Accountability Office 441 G Street NW, Room LM Washington, D.C. 20548</p> <p>To order by Phone: Voice: (202) 512-6000 TDD: (202) 512-2537 Fax: (202) 512-6061</p>
To Report Fraud, Waste, and Abuse in Federal Programs	<p>Contact:</p> <p>Web site: www.gao.gov/fraudnet/fraudnet.htm E-mail: fraudnet@gao.gov Automated answering system: (800) 424-5454 or (202) 512-7470</p>
Congressional Relations	Gloria Jamon, Managing Director, JammonG@gao.gov (202) 512-4400 U.S. Government Accountability Office, 441 G Street NW, Room 7125 Washington, D.C. 20548
Public Affairs	Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, D.C. 20548

The CHAIRMAN. Thank you, General. I usually save my questions for the end, but your provocative remarks—and I mean that in the best sense—require me to ask you a pretty fundamental question.

I maintain, there will be no reform at the UN of the slightest kind even if it involves accounting for paper clips until funding is withheld from the UN as a penalty for failing to adopt reform, these reforms. But waiting for the UN to reform itself without any penalty if they fail to do so is a fool's errand.

Would you comment on that statement?

Mr. WALKER. Mr. Chairman, I think there are pros and cons with regard to whether or not you ought to link UN contributions to reforms.

Let me just say this. For any fundamental transformation effort to work, you need to have three elements in addition to a plan. You need to have incentives for people to make the necessary reforms. You need to have adequate transparency mechanisms to provide reasonable assurance they will do what they say they are going to do, because somebody is looking. And, thirdly, you need to have accountability mechanisms if people do not do what they say they are going to do.

The question is, what are the appropriate accountability mechanisms? Obviously, one might be financial in nature, but I have not really fully studied that issue.

The CHAIRMAN. That is a shame.

Mr. WALKER. I will be happy to give it some further reflection if you would so desire, Mr. Chairman, and talk to you about it.

The CHAIRMAN. I have a burning desire.

Mr. WALKER. Well, I will try to do my best to quench that within a reasonable period of time.

The CHAIRMAN. Thank you.

Mr. Smith.

Mr. SMITH OF NEW JERSEY. Thank you very much, Mr. Chairman.

And, Mr. Walker, thank you for your testimony and for the report you have provided. Let me just ask you a couple of questions.

How adequate is oversight of the UN's various specialized agencies? I know I have asked for answers on a number of things as Chairman of the Global Human Rights and International Relations Subcommittee for 6 years, and now I have that Subcommittee again with the important addition of Africa as a regional part, a super-Subcommittee that was created by Chairman Hyde. But when we ask questions, we get very, very poor answers. We don't have access.

How is the money spent? By whom? Under what circumstances?

We get these very unresponsive fact sheets back that don't really tell us much as to what is happening on the ground. And I am wondering what your feelings about this practice are, particularly with regard to the specialized agencies. And did your report include the Global Fund at all?

Mr. WALKER. Well, first, my understanding is that our review did not deal with the specialized agencies such as the World Health Organization.

I think the biggest problem with regard to the funds that are within the control and the duties and responsibilities of the Sec-

retary-General, which is what we are dealing with—and as you know, the specialized industries do not come under the direct control of the Secretary-General—is that there are certain special funds and programs, such as the Oil-for-Food Program as an example, that present a particular problem. And that is where there is clearly inadequate oversight and where the need for more certainty as to resources, more adequacy as to resources, more flexibility as to allocating one's resources for OIOS, and not having to basically have the person that you want to audit approve the audit and be in a position to effectively say “yes” or “no” as to whether or not you are going to do the work and what work you are going to do.

Let me also note that, frankly, there clearly need to be some fundamental reforms with regard to the UN, as well as a transformation of how it does business, which involves certain fundamental cultural changes and challenges. It is particularly difficult in a multilateral organization, and I would also note that we have some of our own challenges within the United States Government with regard to this issue, too.

Mr. SMITH OF NEW JERSEY. Let me ask you, if I could, on the OIOS with regards to peacekeeping, we held two hearings on the horrific problem of UN peacekeepers raping and sexually abusing young children in the Congo. There was an investigation, and I think there are many within the UN system that desperately want real reform. Jane Holl Lute, for example, and others are trying their best; but the culture tries to mitigate everything they attempt to do. Did you find any of that in your investigations relative to peacekeeping?

And on procurement, we all know that human rights specs get the bid, and sometimes sweetheart deals can be there—lowest bidder and best qualified may not be the ones getting the bid.

What did you find in terms of that whole issue?

Mr. WALKER. Mr. Smith, the two reports we issued today are focused on internal oversight vis-a-vis the OIOS and also internal procurement policies and practices. As you properly point out, the OIOS recently completed some audit work itself with regard to procurement practices relating to peacekeeping operations and found a number of serious problems there which exposed the UN to potential fraud, waste, abuse, and mismanagement.

In addition, as you also know, there has been a significant increase in the amount of money being allocated to peacekeeping activities in recent years, and therefore, that increases the sense of urgency to get on with these types of reforms.

As far as the issue of human rights abuses, my understanding is, that is beyond the scope of what we got involved with. But with your permission, Mr. Chairman, I have Tom Melito with me who is a director in our GAO, and he might be able to provide some more specifics there.

Mr. MELITO. Thank you.

Yes, the Comptroller General is correct, we didn't actually look at human rights abuses, but in the course of our work we did find that OIOS's budget problems restricted their ability to look at the sexual exploitation allegations in peacekeeping operations. They identify that as one of the areas they wish to explore, but they were hindered because of budgetary issues.

Mr. SMITH OF NEW JERSEY. Okay.

Mr. WALKER. And clearly those types of activities could be within and should be within the scope of OIOS. As you know, the GAO does work with regard to financial matters, but we do work with regard to a broad range of other activities that are non-financial in nature on behalf of the Congress and the country.

Mr. SMITH OF NEW JERSEY. You do make the point that it has not adopted specific ethics guidance. Also, Transparency International is very good at listing countries that are transparent when it comes to how they handle finances at a government level. Could you speak about how would you rate the UN, having done a study in terms of its transparency?

Mr. WALKER. Its transparency is inadequate. I go back to what I said before. In any system, whether it is a government system, a procurement system, a health care system, whatever, you have got to have three things, you know: Incentives for people to do the right thing, transparency to provide reasonable assurance they will because somebody is looking, and accountability if they do the wrong thing.

Clearly there is a need for progress in each of those dimensions with regard to the UN, and the complexity of achieving that is even greater than it is in our own government because you are dealing with a supernational multilateral institution that adds a whole new degree of complexity where each member has one vote.

The CHAIRMAN. Mr. Schiff.

Mr. SCHIFF. Mr. Walker, could you amplify a little bit on the views that you expressed in your report given the imperative of shifting responsibility away from the General Assembly? And I don't know if this is beyond your purview, but share your thoughts on how we can more effectively move that agenda at the UN.

Mr. WALKER. I think that we are helped in moving the agenda now that the critical position that was mentioned before by the Ranking Member has been filled. It has been filled as of March 2006. So that means that the person who is responsible to focus primarily on these types of issues with the Fifth Committee. My understanding, our new Ambassador, whose name is Mark Wallace, is now on the job and focused on these issues.

I think that it is important for not just the Congress to be interested in this issue; I think it is also important for other types of professional organizations and other countries to be interested in this issue.

For example, on the issue of organizational independence of OIOS and their authorities, the International Organization of Supreme Audit Institutions, which I serve on the board and am head of strategic planning, that is an organization where it and its members can, and should I believe, serve to reinforce the importance of these types of reforms with their respective governments in order to try to achieve the necessary improvements that can provide for more effective oversight and help to combat corruption and to enhance efforts to improve economy efficiency and effectiveness. Those would be a couple examples I would give off the top of my head.

Mr. SCHIFF. At present, though, has this generated into a fight between the rich and the poor nations at the UN, with more of the

donor nations urging this centralization of authority, poor nations resisting it; and the United States, because of an absence of a point person or because we have largely criticized from outside rather than aggressively promoting and working within—I mean, is that sort of where we are right now?

Mr. WALKER. Well, as you know, Mr. Schiff, without being on the front line and without being part of the UN organization, I can only give you my perspective from the experience that I have had.

There is a longstanding history within the UN of there being some differences between the developed world and the developing world. As you might imagine, the donor countries, the primary donor countries, because everybody donates—that is important, but obviously the donations are determined by a complex formula which, among other things, includes GDP. Those who contribute more money have more of an incentive to make sure that corruption is minimized and that you maximize economy and efficiency and effectiveness because we have the greatest stake. We are the ones making the reforms.

Mr. SCHIFF. We do and we don't. We have the greatest stake as a donor, but we have a smaller stake in that we are not a recipient. The recipients arguably should have the greater stake because they are the countries in need that would lose from funds that are siphoned off for unimportant or corrupt abuses.

Mr. WALKER. I think you make an excellent point. And I think one of the things that the developing world needs to recognize and that all member-nations need to recognize is that there are finite resources, and every dollar that is lost through corruption and every dollar that is wasted is a dollar that is not available to do good and to further the agenda of the UN.

And this is going to be particularly important because the industrialized nations, including the United States, face serious budgetary constraints that we are going to have to come to grips with.

Mr. SCHIFF. Real quickly in my last seconds, if you can only accomplish one thing at the UN—reform, single most important thing that the United States should prioritize getting done—what would it be?

Mr. WALKER. I would have to think about that, and I will be happy to provide it for the record if I am going to get it down to one. Thank you.

[Note: The information referred had not been submitted by Mr. Walker at the time of printing.]

Mr. SCHIFF. Thank you.

The CHAIRMAN. Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman.

Mr. Walker, you indicated earlier that the total UN budget now is about \$1.6 billion. About what percentage of that comes from the United States funding?

Mr. WALKER. The U.S. contribution, I apologize, is \$1.6 billion. And we contribute, what, 22 to 25 percent of the total budget. And I am sorry, your question was?

Mr. FALEOMAVAEGA. Did you say that the total budget of the United Nations is \$1.6 billion?

Mr. WALKER. I don't think that is right.

Mr. FALEOMAVAEGA. What is the total UN budget?

Mr. WALKER. My capable staff informs me that the total is about \$3.8 billion, and that the United States contributes about \$1.6 billion.

Mr. FALEOMAVAEGA. That is almost one-third.

Mr. WALKER. By the time you consider specialized operations and other types of activities, where it is not the normal formula allocation and where there are special arrangements made for different burden sharing—

Mr. FALEOMAVAEGA. Have you had a chance to review the allocation formula that you said is very complex? Does it seem fair, based on GDP or whatever it is that goes on in terms of the contributions? I mean, who are the other major contributors, the top three or four major contributors to this \$3.8 billion budget total, besides the United States at \$1.6 billion?

Mr. WALKER. Obviously, Japan and the EU nations would be the larger contributors.

Mr. FALEOMAVAEGA. And Japan is not a Permanent Member of the Security Council, right?

Mr. WALKER. That is correct. That was determined in the aftermath of World War II.

Mr. FALEOMAVAEGA. I understand.

What is the current procedure for prosecuting someone that violates or simply steals from the United Nations, as we are now encountering, in terms of people who—just simply for embezzlement, somebody steals from the kitty? How do we go about prosecuting that person, whether the person comes from other countries or even from our own country?

Mr. WALKER. If there are allegations of fraud or other types of criminal activity, it would be investigated by OIOS, assuming they have adequate resources and assuming that their authorities were adequate.

As far as the prosecution, Tom, could you help with regard to the prosecution?

Mr. MELITO. If it is a criminal matter, such as in the case of Yakovlev, it would get referred to the United States Attorneys Office, if in the United States, or something equivalent in a different country. If it is more of an initiative matter, then there are forums within the UN to take care of that.

Mr. FALEOMAVAEGA. So that foreign national can be prosecuted in our courts, in our country if that person is prosecuted for criminal—

Mr. MELITO. Individuals have diplomatic immunity.

Mr. FALEOMAVAEGA. That was what I was going to get in my next question.

Mr. MELITO. But in the case of Mr. Yakovlev, there was a request to have that waived, and it was waived in that case. So there is always a possibility.

Mr. FALEOMAVAEGA. I know that there is a sense of the perception, at least in my sensing in meeting with some of the people at the United Nations, that—and, of course, I don't know whether they resent it, but it is a reality that sometimes we kind of bear ourselves and say it is either our way or the highway. And, of course, what we are concerned about here is the American taxpayer's money and whether or not we are properly accounted for.

My question is, we are having a problem in our own country. How do we go about saying what accounting system is the best procedure to follow? I know there is a standard accounting—I am not an accountant, but there is a guideline standard to say, this is what accountants should go by.

You know, we are getting into the Enrons and all the situations. You can cook the books and pretty much still justify as an accountant and say, it is okay. And I just was curious, do we apply United States accounting standards on how they keep the books of the United Nations, or are there some other procedures that they have been following prior to this concern that we have now expressed about accountability?

Mr. WALKER. It is my understanding they follow international accounting and reporting standards. There are international standards for both accounting and reporting. There are international standards for auditing and other types of assurance services.

But as you know, there is a difference between external reporting and internal auditing and related accounting and reporting activity, such things as cost accounting, which may or may not be reported externally, but are necessary in order to be able to make timely, informed management decisions.

Mr. FALEOMAVAEGA. Would you say that the international standards are pretty much up to par with what—

Mr. WALKER. Well, I think they are complying with international standards for external reporting. What their real problem is is to be able to deal with the internal accounting and controls, internal controls and oversight mechanisms.

You know, candidly, we have many of the same challenges, but not necessarily to the same degree, in our own Defense Department.

Mr. FALEOMAVAEGA. One more question, Mr. Chairman. What would be your best judgment in terms of the amount of loss on account of fraud, waste, funding that just could not be accounted for? Is there any sense of estimate that can become—

Mr. WALKER. Not that would meet GAO's professional standards. I can tell you that it is much higher than what we see here in the United States; not as high as we see in Third World countries, but OIOS has been quoted as saying that they think it could be in the hundreds of millions of dollars. And that is obviously a big number when you consider that the total amount of money that they received last year was \$3.8 billion.

And the only thing I would want to provide for the record is, was that OIOS estimate of hundreds of millions for 1 year or over a period of time, because obviously that would make a significant difference with regard to the percentage.

Mr. FALEOMAVAEGA. My time is up. Thank you, Mr. Chairman.
The CHAIRMAN. Mr. Wilson.

Mr. WILSON. Thank you, Mr. Chairman.

And thank you, Mr. Walker, for your service. With the Oil-for-Food Program, what level of study have you done of that? And what are the key lessons learned from it? What are the implications for future sanctions?

Mr. WALKER. We have done work in regard to the Oil-for-Food Program in the past; we have issued reports on it. I would be

happy for my staff to provide you with a copy. But our work among other things identified that there was clearly fraud identified with that program.

In addition to that, our work was one of the primary factors that we believe led to the appointment of Paul Volcker and the only independent investigation that was conducted by Paul Volcker on behalf of the UN.

Furthermore, some of the issues that we are raising in our reports that were issued today were such that they allowed that type of situation to potentially occur: That the OIOS did not have adequate resources, did not have adequate authorities to be able to audit areas that they felt were high risk. And that is why we think it is important that we address the systemic problems and that, hopefully, our recommendations will be acted upon in a timely manner.

Mr. WILSON. And I appreciate the questions of Mr. Faleomavaega in regard to prosecution for obvious criminal conduct.

And then you have diplomatic immunity, and how do you balance this; and where people, as you identified, may have committed open and blatant fraud, who and where?

And you had mentioned the U.S. Attorneys Office. Where could this be pursued?

Mr. WALKER. Well, my understanding, the way that it works right now is, depending upon where the violation occurs, then it is subject to prosecution under the courts of where the violation occurs.

However, presumably if one is eligible for diplomatic immunity here, if the violation occurred here, the same would occur elsewhere. And, therefore, from a practical standpoint, given the nature and extent of the abuse, I would imagine that the degree of international pressure and the degree of press attention that would be brought to bear would be, practically, the primary factor that would determine whether or not the country would be willing to waive diplomatic immunity or force that individual to do that.

Mr. WILSON. And who is it that provides the waiver? Is it the country of the person's citizenship, or who waives this?

Mr. WALKER. My understanding, it is the Secretary-General in consultation, not solely. I am sure he consults with others, including the country involved, because after all, it is a collegial body. But it is my understanding the Secretary-General has the authority to waive diplomatic immunity.

Mr. WILSON. And in the most recent, say, Volcker investigations, how many waivers have occurred? You identified, I believe, one; were there any others?

Mr. WALKER. That is the only one that we are aware of, Mr. Wilson.

Mr. WILSON. That is just amazing. That is sad.

Mr. WALKER. It is not over yet, though, hopefully.

Mr. WILSON. I mean, just from what I have seen, just in terms of the vouchers being provided, the obvious securing of support by a totalitarian regime, and then the spending procedures that they had, which were overpriced. And that is just a shame.

With the United Nations is a new ethics office, I understand. Is it operational? Has the office been set up? Is it probably—

Mr. WALKER. Well, first, they haven't adopted clear ethics standards yet.

But with regard to the office, Tom, could you give us the status on that?

Mr. MELITO. Yes. The office was established in January. To my understanding, they are up to four staff members, but they are trying to get up to 16 staff members. It is a very enormous task because there are 29,000 employees in the UN system, so it is going to be something that is going to take a while for them to fully staff.

Mr. WILSON. And you identified that the standards of ethics still need to be identified. Is progress being made?

Mr. MELITO. They are establishing—I mean, this is something they are creating from scratch, so—but they have established a financial disclosure procedure, and they are trying to implement other aspects.

Mr. WALKER. For the procurement area, for example, they need to do more in particular.

Mr. WILSON. And do they have currently a financial disclosure filing?

Mr. MELITO. As of this year—

Mr. WILSON. Staff.

Mr. MELITO. They are now requiring financial disclosures for many more staff than in the past. I think it is most of their executive-level staff as well as those people in procurement.

Mr. WILSON. And would the ethics office be similar to, say, an inspector general's office?

Mr. MELITO. The office will work with the OIOS to do investigations; and I think that relationship has yet to be negotiated and established.

Mr. WALKER. As you know, we have an Office of Government Ethics and we have an inspectors general. And so while there is correlation in some activities, they are really separate and distinct functions.

Mr. WILSON. Thank you very much.

The CHAIRMAN. Ambassador Watson.

Ms. WATSON. Thank you very much for holding this hearing, Mr. Chairman.

And thank you very much for coming and describing the processes of your investigation. And your report repeatedly states that the UN peacekeeping staff noted that they are often procuring goods and services in extremely difficult post-conflict environments, making implications of the best practices and challenges. And I note that while you did a number of surveys and questionnaires, the staff did not go out to the field to actually evaluate the conditions under which the procurement took place.

Is that so?

Mr. MELITO. We created a structured interview and we interviewed every single program manager in all of the peacekeeping missions. So we had telephone conversations of between 3 and 4 hours with each of the program managers, and we did some follow-up as well. This was a much more comprehensive view of field procurement than we would have gotten if we had only visited a couple of peacekeeping missions.

Ms. WATSON. I know how difficult it is when you go to the various countries, the various hot spots, because people do things differently than we do them here. And I think that is probably something that you find as a stumbling block.

Plus, you need people to be able to go out there. That requires a budget and so on. Because things are just done differently and accounting is different—trust me, I know this—the outcomes are always questionable because of the different interpretation.

Would you agree that many of the problems you identified in your procurement report are due to a failure by the UN Department of Management and Procurement Services in the New York area not providing sufficient support to the UN Department of Peacemaking during this period of significant growth in the temple of the UN peacemaking operations?

Mr. WALKER. That has been one of the problems.

But let me also reinforce, we are not assuming that United States standards and policies are appropriate. There are generally accepted international standards. Nonetheless, you are correct in noting that there is a wide difference between whether or not people adopt them and their ability to do so in a timely manner.

Ms. WATSON. And it takes bringing them up to that level, that international standard level, because you will find different countries lagging behind or keeping up with the pace.

So I understand the problems, and I would hope that we would continue to look at those problems and come back with recommendations.

I would hope that we would never decrease the funding, because if we are going to require them to reach that international standing, that means that we are going to have to have people who can go out to the site and see how things are being done there.

Mr. WALKER. It should, however, be easier for the UN to accomplish this than individual countries.

Ms. WATSON. Exactly.

Mr. WALKER. As you know, Ms. Watson, the World Bank, for example, has set as one of its highest priorities—or the highest priority is to combat corruption and to promote professional standards, the adoption of professional standards and enhance capacity building in the developing world.

It is a lot more complicated when you are talking about dealing with 180-plus countries than it is dealing with a single supernational institution of top-quality professionals. And so they should be able to do a lot better.

Ms. WATSON. I understand completely what you are saying. And it is going to take a while for those individual countries to come up to speed, because they think of these things differently. And what we would call waste, fraud, and abuse, it would require—it is a cultural necessity in some places. And you have got to change their thinking, you have to change the way they operate.

So I commend you for the start you are making and your recommendations. And we like the transparency; we like you coming back and reporting to us your successes in areas that you think need improvement. I am behind you 100 percent. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. McCotter.

Mr. MCCOTTER. Thank you, Mr. Chairman. Thank you for holding the hearing.

Help me understand a couple of things. Sorry I didn't hear opening statements.

The distinction I think has to be made, and you can tell me if it has been or not, and if there are adequate safeguards in both realms between misfeasance and malfeasance. Misfeasance of control over other individuals' funds to me would be an indifference or an incompetence in the expenditure to other people of those funds, whereas malfeasance would be a willful, deliberate attempt to gain personally from the expenditures of those funds. I would differentiate in the waste, fraud and abuse. I would go to the differentiation between misfeasance and malfeasance.

My second question would be is it not safe to assume that if individuals encounter difficult circumstances in the expenditure of funds, that they should be well prepared and well advised to prepare ethical standards for when they encounter such difficult circumstances. To me, it would make perfect sense to say to yourself if I continue to find myself in the situation where it is difficult to gain an accounting or to provide ethical guidance to individuals under my charge, that I should then internally adopt and promulgate standards and procedures which will then make it easier for them to perform their duties.

Finally, is there any discussion about whether the reduction of funds is a necessary imperative for reform within the UN? We will hear from some quarters that we should not reduce funding because it will impair the cause of reform. It would seem to me by that logic that if one withholds—one refuses to withhold funds and one funds the UN at the levels they seek, that that would be detrimental to pursuing reform, because reform would then lead to a measurement that would be used to potentially terminate United States assistance should misfeasance or malfeasance be found.

Mr. WALKER. That is a multifaceted series of questions. Let me make a good faith step. First, what we are seeing is that in the procurement area, in particular the UN, does not have adequate systems and controls in order to prevent misfeasance, and by not having those adequate systems and controls, it also can facilitate malfeasance.

Furthermore, we are saying that the OIOS, which is the primary internal oversight mechanism, does not have adequate independence, does not have adequate flexibility, and does not have adequate authorities in order to provide an effective check and balance, even if you had the proper types of systems and controls in place.

Thirdly, there is a need, and obviously is appropriate, to provide additional guidance in order to help people do their job well and also to provide a basis from which OIOS can do its work to try to help facilitate things are going as they should be.

With regard to whether or not to withhold funding, that was the first question the Chairman asked me, which I told him that there were pros and cons to that and that I would reflect on it further. I think what you have to do is this, this is a very complex situation

which is not merely a business issue, there are political issues involved here, and there is a long history. It is difficult to isolate just the management reform issue. You and I might say from a professional standpoint we ought to be able to do that. I agree it is in everybody's interest to make these management reforms happen, the developed world and the developing world, for the reasons we talked about, but practically, you are dealing with a very political organization that a lot of issues affect whether or not people are willing to move forward and how quickly.

But I will get back to you, Mr. Chairman, as I promised.

Mr. McCOTTER. If I can just follow up with that

because—and Representative Watson makes a very good point, is that one of the concerns may be that if you adopt routine procedures and routine ethical standards within the UN for their day-to-day operations, say, in New York or elsewhere, it might be advisable to also issue separate procedural and ethical safeguards for the difficult circumstances they require that may not lead or may not be as readily complied with under the circumstances that they face in one of those regions. There may be a two-track system.

Mr. WALKER. My view is I think we should always keep in mind that things like the law and professional standards represent the floor of acceptable behavior. At a minimum, you want people to comply with that. But ultimately, you want to have a culture and an environment and adequate incentive, transparency and accountability mechanisms that don't just make sure people comply with the law and the minimum standards, but they do the right thing that achieves positive outcomes from the standpoint of results, economy, efficiency and effectiveness. And that is a higher standard. And that is a cultural change which is going to take years, but needs to happen. I might add we have some of the same challenges.

Do you want to come back on that?

Mr. McCOTTER. With the Chairman's indulgence.

If you find yourself as a UN employee in a circumstance where you are in a country in difficult circumstances, is that a lot of the circumstances that Representative Watson was talking about are not dictated by the UN employee, and they will then have to try to make the best of fulfilling their mission within the cultural circumstances they find themselves, which would be radically different than individuals within the UN, whether it be a culture of corruption or a culture of innocence, and that the day-to-day operations within a bureaucratic entity housed in New York would be vastly different than the UN employee would find on the ground in a cultural circumstance where they are trying to accomplish a mission but within the paradigm they find themselves.

Mr. WALKER. I understand what you are saying but this is a very slippery slope. This Congress passed something called a Foreign Corrupt Practices Act, which basically says that you are not supposed to, among other things, U.S. corporations are not supposed to, among other things, provide bribes to foreign officials for certain types of activities.

I think one of the things the UN has to debate is, is it going to do what it has to do or is it going to do the right thing. Is it going to try to raise everybody up or is it going to go along with whatever the standards are elsewhere, which may actually impede people

coming to a higher standard, which is ultimately where you want them to be.

Chairman HYDE. Mr. Gallegly.

Mr. GALLEGLY. Mr. Chairman, forgive my tardiness, but I will waive any comments at this point. Thank you.

Chairman HYDE. Thank you.

Well, gentlemen and General Walker, thank you for a most instructive testimony. I hope you won't conclude there is a lack of interest on our side by this sparse showing, but today was an unusual day and I hope you understand that. But we are very interested in the subject, we are very interested in what you do, and we are very admiring of what you do. You have always done a wonderful job and I hope you continue to do it, and I know you do. We thank you and we will get back to you with written questions.

Mr. WALKER. Thank you, Mr. Chairman. It is my pleasure. I have a great team of professionals that work at GAO and we look forward to continuing to work with you.

Chairman HYDE. You especially have someone named Tom who is pretty good.

Mr. WALKER. I concur, Mr. Chairman.

Chairman HYDE. Thank you. The Committee stands adjourned. [Whereupon, at 2:22 p.m., the Committee was adjourned.]

A P P E N D I X

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE RUSS CARNAHAN, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF MISSOURI

Chairman Hyde and Ranking Member Lantos, thank you for holding this hearing regarding internal oversight at the United Nations. The GAO studies that were released this morning, highlight the extensive problems at the United Nations and the need for reform.

I commend the extensive progress made concerning oversight, ethics, and procurement reforms. In order to fully engage the international community, we need the United Nations to be free of fraud and abuse. To accomplish this end, we must ensure that the appropriate internal oversight processes are in place, and are operating effectively.

While improvement has been made at the UN, it does not appear that the peacekeeping procurement fraud has been alleviated, which is partly due to the fact that the extent of the problem is still not known. Since peacekeeping is a central function of the United Nations, we need to ensure that the procurement process is not corrupt and that it is receiving the necessary oversight.

Mr. Walker, thank you for being here today. I will be especially interested to hear your thoughts on the progress made regarding the peacekeeping procurement problem, as well as what your findings show still needs to be done.

RESPONSES FROM COMPTROLLER GENERAL DAVID M. WALKER TO QUESTIONS SUBMITTED FOR THE RECORD BY THE HONORABLE J. GRESHAM BARRETT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Outsourcing at the United Nations

1) *One of the recommendations for reforming the United Nations is “to improve and tighten procedures for United Nations procurement of goods and services.”*

a. What role would outsourcing play in this new type of system?

The United Nations is currently considering the role that outsourcing might play in delivering some services. As noted in the UN document cited in your question (A/60/692, March 7, 2006), the Secretary-General has asked the General Assembly to allow the Secretariat to consider outsourcing and other options for alternative delivery of non-core function services. In that same document, the Secretary-General stated that the Secretariat would conduct systematic cost-benefit analyses of such options for select administrative functions, including translation, editing, printing, and administration of medical insurance and staff benefits. He further stated that these analyses would be completed by March 2007. On May 16, 2006, the General Assembly adopted a resolution (A/RES/60-260) calling for the Secretary-General to provide specific and detailed information concerning these and other proposals.

b. What are the benefits and pitfalls for outsourcing many services in the UN?

While we have not studied the specific benefits and pitfalls for outsourcing services at the UN, we have reviewed the experiences of some public sector organizations in contracting with private firms to perform government responsibilities. Specifically, we identified the following six lessons that several US state and local governments have learned in privatizing certain of their functions and responsibilities:¹

¹GAO: *Privatization: Lessons Learned By State and Local Governments*, GAO/GGD-97-48 (Washington, D.C., March 14, 1997).

1. Privatization can best be introduced and sustained when there is a committed political leader to champion it.
2. Governments need to establish an organizational and analytical structure to implement privatization.
3. Governments may need to enact legislative changes and/or reduce resources available to government agencies to encourage greater use of privatization.
4. Reliable and complete cost data on government activities are needed to assess the overall performance of activities targeted for privatization, support informed decisions, and make decisions easier to implement and justify.
5. Governments need to help their workforces transition to a private sector environment.
6. Monitoring and oversight should be enhanced to ensure that government interests are fully protected.

These lessons could be of use to the UN as it conducts its cost-benefit analyses of outsourcing select administrative functions.

Standards in Accountability

- 2) *There does not seem to be an accountability standard or a specific objective to be met for many programs operated by the United Nations.*

a. Is there anything that can and/or is being done to develop accountability standards for programs operated by the United Nations?

Policymakers and program managers are continually seeking ways to better achieve agencies' missions and program results and improve accountability for results. A key factor in helping to achieve such outcomes is to implement appropriate internal controls. Internal controls, if properly designed and implemented, provide reasonable assurance that

objectives are being met; they also serve as the first line of defense in safeguarding assets and preventing fraud, waste, and abuse.

A general framework for internal controls is widely accepted in the international audit community and has been adopted by leading accountability organizations, including the International Organization of Supreme Audit Institutions, the U.S. Office of Management and Budget (OMB), and GAO.² A key standard within this framework is the control environment, which provides the structure, discipline, and ethical tone for implementing an internal control system. Other standards focus on employing assessments of the external and internal risks an organization faces; establishing policies and procedures to enforce directives (control activities); providing relevant, timely, and reliable information and communication; and monitoring performance and adherence to audit findings.

In April 2006, GAO reported that the United Nations procurement internal controls are weak³ and that lessons learned from the Oil for Food Program indicate the need to strengthen United Nations internal controls and oversight activities.⁴ We also recommended that the Secretary of State and the Permanent Representative of the United States to the UN work with other member states to encourage the Secretary-General to (1) ensure that UN programs with considerable financial risks establish, apply, and enforce the principles of internationally accepted internal control standards, with particular attention to comprehensive and timely risk assessments; and (2) strengthen internal controls throughout the UN system. In April 2006, the UN concurred with our recommendation and noted that it is taking steps to strengthen internal control throughout the organization.

² Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control-Integrated Framework*, September 1992.

³ GAO, *United Nations: Procurement Internal Controls Are Weak*, GAO-06-577 (Washington, D.C. April 25, 2006).

⁴ GAO, *United Nations: Lessons Learned from Oil for Food Program Indicate the Need to Strengthen UN Internal Controls and Oversight Activities*, GAO-06-330 (Washington, D.C. April 25, 2006).

