

INDEPENDENT INQUIRY COMMITTEE  
INTO  
THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME

BRIEFING PAPER

INTERNAL AUDIT REPORTS  
ON THE UNITED NATIONS OIL-FOR-FOOD  
PROGRAMME

JANUARY 9, 2005

**BRIEFING PAPER –INTERNAL AUDIT REPORTS ON THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME**

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### **I. Introduction**

In 1994, the United Nations General Assembly established the Office of Internal Oversight Services (“OIOS”) and the Internal Audit Division (“IAD”). The establishment of OIOS and IAD was designed to substantially strengthen the professional staffing of the audit function and to reinforce its mandate. In general terms, the mission of IAD is to determine whether controls are adequate to provide assurance with respect to (1) the appropriateness of financial information and operational mechanisms, (2) the appropriate use of resources, and (3) the effectiveness of program management.<sup>1</sup>

Within two years of its establishment, the reinforced audit system was faced with an extraordinary challenge: the unique and complex Oil-for-Food Programme (“OFFP”) which came to involve billions of dollars, require that thousands of employees of the UN and its Agencies operate for over six years amid acute political sensitivities in an area of the world where corruption is rife. Over time, IAD completed 55 audits and 3 summary reports on various aspects of the OFFP, none of which the UN has made public up to this point.<sup>2</sup> The 58 reports provide a complex, although not comprehensive, view of the workings of the OFFP and related undertakings such as those of the United Nations Compensation Commission (“UNCC”).<sup>3</sup> They also raise a variety of serious issues concerning the operation of the OFFP.

In its interim report in several weeks, the Independent Inquiry Committee into the United Nations Oil-for-Food Programme (“The Committee”) will provide its considered answer to how the audit function responded to the OFFP and the challenge it posed to OIOS and IAD. This Briefing Paper has the more limited role of providing perspective on the 58 audit reports that today, with the agreement of the UN, are being made public for the first time.

At a time of intense scrutiny of the OFFP and the UN, including allegations of corruption and illicit payments, close examination of these audit reports and their implications for the overall management and control of the OFFP is clearly warranted. Specifically:

1. Were the audits conducted in a capable manner and did they reveal significant shortcomings in the OFFP and related undertakings?

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<sup>1</sup> United Nations Internal Oversight, publication of OIOS, December 2003, page 3.

<sup>2</sup> One of the internal audit reports was leaked to the press and published in 2004. The report, OIOS audit AF02/23/1, *Management of Contract for the Provision of Inspection Agents in Iraq*, first appeared in the online trade journal [www.mineweb.net](http://www.mineweb.net) on May 19, 2004.

<sup>3</sup> The UNCC, which is resident in Geneva, is responsible for settling claims arising from the invasion and occupation of Kuwait by Iraq. After SCR 986, its operating expenses and the claims awards and payments it makes come from the sale of oil under the OFFP. The UNCC was allocated a significant portion of the revenue from oil sales over the course of the OFFP.

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2. Were the audit findings appropriately and effectively pursued?
3. Were the design, coverage, and priorities of the audit program appropriate to the challenge, and were audit findings timely?

The broadest, and ultimately the most important question is whether the audit and control program could or did reach the objectives set out in the 1994 General Assembly resolutions, or whether it was subject to inappropriate management influence.

This briefing paper is not an overall appraisal, review, or critique of IAD's work in regard to the OFFP. That will be provided as part of the interim report The Committee will make in a few weeks. Following the interim report, the IIC will investigate and report on other oversight functions, including the external audits performed by the United Nations Board of Auditors, the role of the Joint Inspection Unit and other departments of OIOS, the audits conducted by the internal audit departments of the various UN funds and programs, and any advice provided by the Office of Legal Affairs.

### **II. Provisional Assessment**

The Committee's provisional answers to the questions posed above are as follows.

In response to the first question, the auditors capably reviewed many OFFP operations and reported on many instances of shortcomings in management and control procedures, violations of UN procedures, verifiable monetary losses, agreements to implement recommendations that were chronically violated, and other serious irregularities.

The IAD also raised significant issues about claims processing and claims decisions at the UNCC, which, in OIOS' view, resulted in significant overpayments to claimants.<sup>4</sup>

The Committee will address the second question in its interim report. However, in regard to some of the more critical reports, such as those on the inspectors Saybolt Eastern Hemisphere B.V. and Cotecna SA, there was no apparent follow-up auditing done. On the other hand, IAD employed a great deal of diligence in regard to management and control problems at UN-Habitat.

Important issues arise in regard to the third question. Although the auditors' evaluation of specific areas of OFFP was capable and thorough, their total scope was limited and clearly does not evince an overall strategy based on risk assessment. In general, the audit

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<sup>4</sup> OIOS's views on UNCC processing and decisions have become a matter of controversy between OIOS and UNCC. The UNCC has put its memoranda disagreeing with OIOS's conclusions on its website, [www2.unog.ch/uncc](http://www2.unog.ch/uncc). In particular, some of the findings regarding overpayment are disputed by UNCC and will be the subject of investigation by the IIC.

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reports demonstrate a preoccupation with elements of the OFFP outside New York and UN headquarters. They particularly examine problems with inspectors and procurement functions in Central and Northern Iraq.

In addition to not reviewing New York headquarters functions in depth, the audit reports also fail to examine and test execution of the oil purchase and humanitarian aid contracts, particularly as they relate to price and quality. Such testing could have been helpful in limiting the success of Iraqi government entities in generating income from the contracts in violation of UN sanctions. Additionally no internal audits were performed of the letter of credit operations of the BNP in regard to oil sales and goods import contracts.

Finally, the reports show that IAD did not complete fieldwork for any audits in the first two years of the OFFP, except at the UNCC. While IAD did complete the field work for a substantial number of audits during the following two years, the vast majority of the audits were completed after 2001. In fact, two thirds of the total number of audits were completed in the last three years of the OFFP.

In sum, the audit function was presented with an extraordinary challenge and specific audits were performed in a credible manner. However, the lack of focus on headquarters functions, oil purchase and humanitarian aid contracts, and bank letter of credit operations, in combination with the slow pace of audit performance, appear to have deprived the UN of a potentially powerful agent in helping to ensure accountability, particularly in the early years of the OFFP.

### **III. Overview of the 58 Internal Audit Reports and the Audit Process**

IAD performed a total of 55 field audits of various components of the OFFP and prepared a total of 58 audit-related reports, including two summary reports prepared for the UN General Assembly<sup>5</sup> and one summary report relating to UN-Habitat that was issued to the OFFP management at the Office of Iraq Programme (OIP). Two of the 58 reports were not issued and remain in draft status.

Of the 55 reports based on original audits,<sup>6</sup> 21 relate to aspects of the administration of the OFFP including the UN Office of the Humanitarian Coordinator in Iraq (UNOHCI), OFFP contractors such as Lloyd's Register, Cotecna Inspection SA, and Saybolt Eastern Hemisphere BV, as well as investigations of various procurement functions. Two reports relate to the audit of the Electricity Rehabilitation Project in Northern Iraq implemented by the UN Department of Social and Economic Affairs (DESA) and subsequently

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<sup>5</sup> OIOS audit report AF03/120/1, *Findings Resulting from Oversight Activities of the Oil-For-Food Programme*, was not formally issued and is still considered "draft" by IAD.

<sup>6</sup> OIOS audit report AF03/22/1, *Review of the Programme, Analysis, Monitoring and Support Division of the Office of the Iraq Programme*, was not formally issued and is still considered "draft" by IAD.

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administered by the UN Development Programme (UNDP). Another two reports relate to audits of the Treasury and cash management function of OFFP. Five reports relate specifically to UN-Habitat, one of the nine Agencies implementing the OFFP in Northern Iraq<sup>7</sup>. Six reports relate to liquidation activities during and after military activities began in 2003. Finally, 19 reports relate to audits performed on the UNCC, which was set up in 1991 to process claims and pay compensation for losses suffered as a direct result of Iraq's unlawful invasion and occupation of Kuwait.

We note that IAD did not perform any audits of the United Nations Monitoring, Verification and Inspection Commission (“UNMOVIC”) operations in Iraq until 2004. The report relating to the 2004 audit is currently under review by UNMOVIC and IAD. UNMOVIC was tasked with monitoring Iraq’s weapons programs and carrying out arms inspections within Iraq. Its costs were paid from an allocation of 0.8 percent of oil revenues.

A listing of the 58 audit reports, as well as a brief description of their contents, is included in Annex 1. We suggest that the reader use the descriptions as a more detailed introduction to the contents of each of the reports.

**Table 1. Number of Audit Reports issued by IAD**

|  | <u>IAD Reports</u> |
|--|--------------------|
| OIP/UNOHCI                               | 21                 |
| DESA/Electricity Project                 | 2                  |
| Treasury/Cash Management                 | 2                  |
| UN-Habitat                               | 5                  |
| Liquidation                              | 6                  |
| Subtotal Field Reports                   | <u>36</u>          |
| UNCC Field Reports                       | <u>19</u>          |
| <b>Total Number of IAD Field Reports</b> | <b><u>55</u></b>   |
| Summary Reports                          | <u>3</u>           |
| <b>Total Number of IAD Audit Reports</b> | <b><u>58</u></b>   |

IAD’s report review procedure was quite standard. Before issuing a final edition of an audit report, IAD circulated a draft report containing findings and recommendations to

<sup>7</sup> UN-Habitat is the only one of the nine implementing Agencies that performed duties relating to the OFFP for which IAD provided audit services. All other Agencies relied on in-house oversight functions.

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relevant members of the OFFP management. In most circumstances, written responses to the recommendations made by IAD were requested from the relevant program managers.

If the program managers agreed with a recommendation, they were obligated either to demonstrate that the recommendation had already been implemented or to provide a plan and timeline for implementation. In cases where managers did not agree with a recommendation, they were asked to provide IAD with a justification of their views in writing. If IAD deemed that a given rationale for non-implementation was compelling (e.g., the auditor had not fully grasped the issue or there were other mitigating controls), then the recommendation would be withdrawn.<sup>8</sup> If OIOS/IAD still considered the recommendation pertinent and valid after these additional discussions, the Under-Secretary-General (USG) of OIOS could then provide a report to the Secretary-General (SG) for a final decision. Further, the USG OIOS in his annual report to the General Assembly (GA) could include any significant recommendations not approved by the SG, accompanied by the SG's reasons for not approving.<sup>9</sup>

IAD designed databases to track the disposition of each recommendation. One database, maintained in Geneva, Switzerland, was used to track UNCC recommendations and another, maintained at OIOS headquarters in New York, was used to track all other recommendations. The databases were used primarily to record whether a recommendation was deemed critical by IAD, whether it had been withdrawn, or whether it had been implemented by Management. A total of 559 recommendations relating to the OFFP audit reports, net of withdrawn recommendations, are included in these databases.

Of the 559 recommendations included in the databases, IAD regarded 179 as critical. Critical recommendations are defined by IAD as those with one or more of the following characteristics:

- Changes to rules, regulations or policies
- Changes to organizational structure
- Measurable improvements to productivity
- Correction of high-risk systemic deficiencies
- Accountability for fraud, waste and abuse
- Savings, recoveries or prevention of \$25,000 or greater
- Topical importance
- Government action required

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<sup>8</sup> OIOS/IAD Internal Audit Manual § 7.6.

<sup>9</sup> Secretary General's Bulletin 273 page 5, para 21 (Sept. 7, 1994); ST & Report of Secretary General A/C.5/52/12 page 3, para 3 & 4 (Oct. 28, 1997).

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The recommendations database shows that 22 of the critical recommendations were not implemented.<sup>10</sup>

Final audit reports, with comments from Management, if available, were typically circulated to OIP, the UN Controller, the UN Board of Auditors, and the UN Department of Management as noted on cover memos to reports.

### **IV. Findings and Observations**

#### **A. Areas and Functions of the OFFP examined by IAD**

There are five main topics covered by the internal audits:

1. Procurement, project management, and contract management at OIP and the Iraq-based agencies of UNOHCI, UN-Habitat and DESA
2. Inspection contracts – oil and humanitarian supplies
3. Management of the escrow account by UN Treasury
4. Claims review and processing by UNCC
5. Liquidation and wind down of OFFP related activities

##### ***1. Procurement, project management, and contract management at OIP and the Iraq-based organizations: UNOHCI, UN-Habitat and DESA***

IAD undertook 24 audits in this area between 1998 and 2002, including two “follow up” audits that reviewed the status of earlier recommendations. IAD has strong expertise in auditing these activities and their reports are quite detailed, describing many significant problems and irregularities and containing extensive recommendations. For instance, the series of three audit reports carried out in 2000, 2001 and 2002 on the UNCHS (UN-Habitat) Settlement Rehabilitation Programme in Iraq (index numbers 26, 27 and 29) cover project management, contract tendering, and procurement activities in depth and make many recommendations on all aspects.

We note that the one OIP procurement related audit was performed in 2003 and was associated with contract revisions after the dissolution of the former Government of Iraq.

On the whole, the OFFP management agreed with IAD’s findings and recommendations but was less reliable in implementation, as demonstrated by the number of recurring weaknesses identified in successive reports. Both of the follow-up audits, for example, noted the persistence of deficiencies and shortcomings that had been addressed in earlier reports. In the follow-up report to the three audits referenced above, the report states that

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<sup>10</sup> As per the IAD Recommendations Database



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only 11 of the 45 previous audit recommendations had been implemented and also noted that senior management reported that 12 recommendations were implemented when in fact they had not been implemented.<sup>11</sup>

The audit reports describe inadequate procedures, policy, planning, controls and coordination across numerous areas of activity. Some reports, most notably those on DESA, present a wholesale failure of normal management and controls.<sup>12</sup> The reports offer a picture of several organizations debilitated by stress and insufficient resources that too frequently operated in an ineffective, wasteful and unsatisfactory manner. Based on the reports, it appears the OFFP management was not quick to react to criticism and was either unable or unwilling to address issues raised by IAD. In cases where monetary losses from inadequate control and poor judgment were calculated by IAD, the results were often significant—approximately \$5 million in total.<sup>13</sup> This figure would undoubtedly be much higher if it included losses that were not or could not be calculated, in light of the scale and nature of the weaknesses that did get reported.

### ***2. Inspection contracts – oil and humanitarian supplies***

There were three audits done on the inspection contracts, one on the oil inspection contract with Saybolt Eastern Hemisphere B.V. done in 2001, and two others on the contractors responsible for the inspection of humanitarian imports, Lloyd's Register and Cotecna SA, performed in 1999 and 2003 respectively.<sup>14</sup>

The problems identified by IAD during these audits resulted in approximately \$1.4 million in total losses.<sup>15</sup> In all three cases, auditors determined that the initial contract terms were not understood or adhered to by the contractors and that OIP subsequently failed to conduct adequate monitoring of contract execution. Management responses to IAD recommendations were often contentious and suggested a reluctance to impose the controls and constraints on the contractors that the auditors believed were necessary.

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<sup>11</sup> *Management Audit of UN-Habitat Settlement Rehabilitation Programme (SRP) in Northern Iraq, 30/06/2003.*

<sup>12</sup> See OIOS audit AH99/7/2, *OIOS Audits of the Oil-for-Food Programme and OIP-Funded DESA-Executed Project IRQ97003.*

<sup>13</sup> This amount is net of withdrawn recommendations as per IAD Recommendations Database.

<sup>14</sup> For Saybolt, see OIOS audit AF01/30/6, *Audit of the Management of the Oil Inspection Services Contract.* For Lloyd's Register, see AP98/17/5, *Report of a Contract for the Supply of Inspection Agents in Iraq under the Oil-For-Food Programme.* For Cotecna, see OIOS audit AF02/23/1, *Management of Contract for the Provision of Inspection Agents in Iraq.*

<sup>15</sup> This amount is net of withdrawn recommendations as per IAD Recommendations Database.

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### ***3. Management of the Escrow account by UN Treasury***

IAD performed two audits of the management of the Escrow account. The technical nature of this topic was probably beyond IAD's expertise and did not facilitate a fully comprehensive review of risk and account management. To its credit, IAD did recommend in their first report in 2001 that a consultant be engaged to review the appropriateness of techniques used to manage the account and to strengthen financial risk management. The first audit found that the UN Treasury was not applying basic UN policies for diversification, but it did not review the application of banking protocols on transmission of funds.<sup>16</sup> IAD made several recommendations that were reported as not implemented in a 2003 follow-up audit. UN Treasury's responses to draft audits and recommendations were generally contentious. For example, it did not agree with the above recommendation to engage a consultant.<sup>17</sup>

### ***4. Claims review and processing by UNCC***

There were 19 audits of UNCC from 1997 to 2004. Nine audits were conducted in 2001-3 on the processing and assessment of claims, and the remainder examined more general management matters. Many very large potential overpayments were identified. For example, in the 34 page audit report on the review of UNCC F3 claims there are eight broad areas of serious deficiency noted, including double compensation, currency exchange errors, and calculation errors.<sup>18</sup> At the request of UNCC, in November 2002 the UN Office of Legal Affairs pronounced that the OIOS/IAD mandate did not extend to the decisions and workings of the UNCC.<sup>19</sup> IAD disputed this ruling and continued to audit all aspects of claims.

As noted above, IAD's findings regarding over-awards are contested by the UNCC and will be investigated by The Committee.

### ***5. Liquidation of many OFFP related activities***

IAD conducted six audits of the wind-down and closure of OFFP and produced detailed reports with a range of straight-forward observations and recommendations.

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<sup>16</sup> OIOS audit AF01/34/1, *Audit of the Iraq Escrow Account Treasury and Cash Management Functions*.

<sup>17</sup> OIOS audit AF03/105/1, *Follow-up Audit of UN Iraq Escrow Account Treasury and Cash Management Functions*.

<sup>18</sup> OIOS audit AF02/27/3, *F3 category claims*.

<sup>19</sup> Letter from Hans Corell to Rolf Knutsson (Nov. 27, 2002).

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### B. Areas and Functions of the OFFP not examined by IAD

#### 1. Relative Lack of Examination of OIP Headquarters Functions

By and large, audits of the OFFP focused on areas and operations peripheral to, or organizationally and geographically away from, headquarter operations of the OIP, such as the work of UNOHCI, UN-Habitat and UNCC. Of the 55 field audits of OFFP activities, only four touched on functions performed at OIP headquarters. IAD performed two audits of the Treasury and cash management functions, one audit of the contracts processing procedures related to SCR 1472, and one audit of the OFFP Analysis, Monitoring and Support Division (“PAMSD”) at headquarters. The SCR 1472 audit was performed in 2003 and was related to a limited issue and the PAMSD report was never formally issued.

**Table 2. Headquarters vs. Iraq/UNCC Audits**

|                                     | <u>Audits</u>    |      |
|-------------------------------------|------------------|------|
| Treasury and Cash Management        | 2                |      |
| PAMSD                               | 1                |      |
| Contracts Processing under SCR 1472 | 1                |      |
| Total HQ Audits                     | <u>4</u>         | 7%   |
| Total Iraq/UNCC Audits              | <u>51</u>        | 93%  |
| <b>Total Field Audits</b>           | <b><u>55</u></b> | 100% |

One example of this peripheral focus is a 2002 audit of “Budget Practices for SCR 986 2.2% account.” The scope of this audit was limited to budget practices relating to the various UN-related agencies’ portion of the OFFP administrative costs and did not address procedures at OIP headquarters, despite the fact that headquarters’ costs accounted for nearly 40% of the almost \$1 billion in total administrative costs of the OFFP (UNOHCI was 10% and the Agencies were 50%). It is unclear why the scope of this audit was restricted in such a way.<sup>20</sup>

Given the size and complexity of a program such as the OFFP, there were a number of key headquarters’ functions that one would have expected an internal audit department to review. IAD should at minimum have evaluated:

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<sup>20</sup> OIOS audit AF01/35/1, *Audit of budget practices for SCR 986 2.2 per cent account*.

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- Procedures followed by the Contracts Processing Division set up to process contracts for humanitarian goods.
- Procedures followed by the Oil Overseers in approving oil contracts and setting oil prices.
- Procedures followed by the OIP, BNP, and other entities in approving oil and humanitarian contracts and making payments relative to contract performance.
- Procedures followed by the Executive Office and the Office of the Executive Director in project management related areas.

OIP headquarters had the critical task of coordinating the functions of a variety of organs related to the OFFP including the Security Council, the Secretariat, various UN Agencies, UNOHCI, and outside contractors. Lack of IAD reviews in New York meant less accountability for any of the organizational and operational decisions made by the OFFP management at headquarters.

When asked by The Committee the reason for the non-headquarters focus of the audits, IAD staff and OIOS management indicated that there was a chronic shortage of auditors authorized to work on the OFFP and that IAD regarded reviewing and testing work in Iraq as the best use of resources. They also noted that the advice of OIP management was to emphasize scrutiny of activities in Iraq.<sup>21</sup>

### ***2. Lack of Review of Oil and Humanitarian Contracts***

Both prior to and during the OFFP, the potential use of oil and humanitarian contracts by the former Iraqi regime as a mechanism to gather illicit payments was a major concern of outside observers of the UN as well as members of the Security Council. The possible under-pricing of oil and overpricing of humanitarian goods was a widely recognized threat to the successful maintenance of sanctions both inside and outside the Secretariat. The potential for abuse was a principal concern of the UN team that negotiated the Memorandum of Understanding with Iraq in 1995<sup>22</sup> and reports of abuses began circulating in the early phases of the OFFP.<sup>23</sup> Abuses have since been documented in various reports by non-UN agencies.<sup>24</sup>

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<sup>21</sup> Esther Stern interview (December 17, 2004).

<sup>22</sup> Hans Corell interview (November 22 and 23, 2004).

<sup>23</sup> See, for example, *Weapons of Mass Destruction: US Confronts Significant Challenges in Implementing Sanctions Against Iraq*, United States General Accounting Office, May, 2002 (GAO -02-625) and *Sources of Revenue for Saddam and Sons, A Primer on the Financial Underpinnings of the Regime in Baghdad*, Coalition for International Justice, September 2002.

<sup>24</sup> *Comprehensive Report of the Special Advisor to the Director of Central Intelligence on Iraq's Weapons of Mass Destruction*, September 23 2004.

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There were no examinations of the oil and humanitarian contracts by IAD during the OFFP. Oil contracts were not examined with an eye to the enforcement of contract requirements, despite the fact that UN officials had contract-approval responsibilities. It is possible that more comprehensive monitoring and a greater emphasis on fidelity to contract requirements would have deterred the surcharge scheme that resulted in decreased oil prices and lost revenues to the Escrow account. In the same vein, humanitarian contracts were not scrutinized to ensure consistency of the goods with the distribution plan under which they were purchased. They were also not evaluated on the basis of fairness of the price and quality and quantity of goods purchased. Testing the humanitarian contracts for price fairness could have revealed irregularities and undercut the Iraqi government's kickback scheme that resulted in lost revenues to the Escrow account and significant sanctions violations.

When asked by The Committee why there was no review of the contracts, IAD staff provided several answers: (1) that the contracts fell under the purview of the 661 Committee and the Security Council;<sup>25</sup> and (2) that the contracts may not have been “auditable.”<sup>26</sup>

### ***3. Lack of Review of Banking Process and Letters of Credit***

There was no examination of the processing of letters of credit by the BNP, even though UN officials were overseeing the work of the BNP and had approval roles in oil sales and payments to vendors.

### **C. Performance of Audits: Lack of Audits in Early Years**

The Secretariat, in conjunction with numerous UN Agencies, began organizing the OFFP as early as summer 1996. The first liftings of Iraqi oil took place in December of that year. Sale of humanitarian commodities commenced in March 1997. In September 1997, OFFP operations were consolidated under the Office of the Iraqi OFFP.

A comparison of the completion of audits and the implementation schedule of the OFFP reveals that the vast majority of IAD's auditing activity occurred after June 2000, well into Phase VII of the OFFP.

As shown in Table 4, key dates in the production of OFFP are as follows: In 1997 OIOS issued two audit reports covering miscellaneous management and infrastructural issues at UNCC. A second audit report on UNCC was issued in 1998 and three more were produced in 1999. The first audit report on OIP/UNOHCI operations was issued in April

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<sup>25</sup> Dagfinn Knutsen interview (December 8, 2004)

<sup>26</sup> Esther Stern interview (December 17, 2004)

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1999, followed by an additional report in May 2000. The first audit report on DESA was issued in March 2000 and an initial review of Treasury activity was finalized in October 2001. In 2003 and 2004 six reports relating to liquidation activities were prepared.

**Table 3. OFFP-Related Audits by Area and Year**

|                 | 1996     | 1997     | 1998     | 1999     | 2000     | 2001     | 2002      | 2003      | 2004     | Total     |
|-----------------|----------|----------|----------|----------|----------|----------|-----------|-----------|----------|-----------|
| OIP/UNOCHI      | 0        | 0        | 0        | 2        | 4        | 5        | 7         | 3         | 0        | 21        |
| UN-Habitat      | 0        | 0        | 0        | 0        | 0        | 1        | 2         | 2         | 0        | 5         |
| DESA            | 0        | 0        | 0        | 0        | 2        | 0        | 0         | 0         | 0        | 2         |
| Treasury        | 0        | 0        | 0        | 0        | 0        | 1        | 0         | 1         | 0        | 2         |
| Liquidation     | 0        | 0        | 0        | 0        | 0        | 0        | 0         | 5         | 1        | 6         |
| <b>Subtotal</b> | <b>0</b> | <b>0</b> | <b>0</b> | <b>2</b> | <b>6</b> | <b>7</b> | <b>9</b>  | <b>11</b> | <b>1</b> | <b>36</b> |
| UNCC            | 0        | 2        | 1        | 3        | 1        | 2        | 5         | 2         | 3        | 19        |
| <b>Total</b>    | <b>0</b> | <b>2</b> | <b>1</b> | <b>5</b> | <b>7</b> | <b>9</b> | <b>14</b> | <b>13</b> | <b>4</b> | <b>55</b> |

## ANNEX 1- BRIEFING PAPER

## INTERNAL AUDIT REPORTS ON THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME

Audits of OIP and UNOHCI

| IIC Ref. | OIOS Assignment ID | Title  | IIC Summary of OIOS Findings and Recommendations   | OIOS Report Date |
|----------|--------------------|--|--|------------------|
| 1        | AP98/17/5          | <p><i>Summary report on audit of UNOHCI by OIOS Resident Auditor from June 1997–July 1998</i></p> <p>Audit of United Nations Office of the Humanitarian Coordinator in Iraq (UNOHCI) in the areas of financial management, procurement, contract management, personnel management, transport and communications.</p> | <p>Determines that computers and vehicles in excess of UNOHCI requirements were procured. Notes purchase of office furniture at “exorbitant” prices. Questions decision of Office of Programme Planning, Budget and Accounts to charge UNOHCI an additional \$237,000 based on the volume of its voice and fax traffic. Reports delays in the replacement of General Service staff with local staff at a cost of \$67,000 per post. Advocates expeditious follow-up on all issues discussed.</p>   | 20/04/1999       |
| 2        | AP98/17/5          | <p><i>Report of a contract for the supply of inspection agents in Iraq under the Oil-For-Food Programme</i></p> <p>Audit of the <b>Lloyd’s Register</b> contract for the supply of independent inspection agents in Iraq.</p>  | <p>Reports possible overcharges of \$1.38 million by Lloyd’s resulting from an approximate 1800 days when inspectors were not at their designated sites. Also reports the absence of on-site verification operations to determine if Lloyd’s was keeping to the terms of its contract. Notes that \$1.97 million in fees could have been avoided had Lloyd’s not deployed its agents to Iraq in one wave, rather than in stages as was advised by the Department of Political Affairs (DPA). Also notes that DPA and OIP did not solicit new bids for the inspection contract until 1998, despite the advice of the Headquarters Contracts Committee (HCC) to do so as early as September 1997. Determines that the contract rate of \$770 per agent day should have been reduced with each contract extension, but was in practice maintained throughout the duration of the contract. Notes deficiencies in performance of Lloyd’s that could have “serious implications for the United Nations” including: 1) an “inordinate delay” in obtaining results of samples taken from consignments; 2) a lack of independent verification to determine the quality of medicines and vaccines; and 3) a failure to independently authenticate the weight of bulk cargo. Observes that HCC did not identify any of these deficiencies and characterized Lloyd’s performance as satisfactory,</p> | 21/07/1999       |

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## INTERNAL AUDIT REPORTS ON THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME

Audits of OIP and UNOHCI

| IIC Ref. | OIOS Assignment ID | Title   | IIC Summary of OIOS Findings and Recommendations  | OIOS Report Date |
|----------|--------------------|---|---|------------------|
| 3        | AF00/48/1          | <i>Review of the Office of the Iraq Programme (OIP)/The United Nations Office of the Humanitarian Coordinator in Iraq (UNOHCI)-Coordinating and monitoring Issues in North Iraq</i><br><br>Audit of <b>UNOHCI</b> with specific focus on coordination and monitoring of OIP-funded projects implemented by UN agencies. | Determines that evaluation procedures for proposed, current and completed projects are either inadequate, inconsistent or non-existent. Notes that UNOHCI is often unable to determine if a given project was successful, efficient and in keeping with the objectives of OIP. Finds minimal coordination among UN agencies to harmonize policies on administrative issues such as subsistence allowances, salaries and warehousing. Recommends that UNOHCI play a more formal role in reviewing completed projects and assessing proposals submitted by UN agencies. | 25/08/2000       |
| 4        | AF00/50/5          | <i>Deployment of international observers in Iraq for Implementation of SCR 986 (1995)</i><br><br>Audit of the <b>deployment of International Observers</b> tasked with monitoring the equitable distribution of humanitarian supplies in Iraq.  | Reports that 48 of 151 observers stationed in Iraq have been assigned administrative tasks inconsistent with their duties as observers.   | 26/10/2000       |
| 5        | AF00/49/1          | <i>Review of the United Nations Office of the Humanitarian Coordinator in Iraq (UNOHCI)</i><br><br>Audit of the <b>financial and administrative procedures at UNOHCI</b> as well as the operational arrangements in Northern Iraq.  | Finds “serious breaches of financial and procurement rules,” including a lack of documentation to justify purchases and the acquisition of over \$500,000 in “winter items” in a manner completely inconsistent with established procedures. Notes that the Mission violated UN financial rules by reserving over \$400,000 in miscellaneous obligating documents. Also finds that UNOHCI departed from its role as coordinator and monitor of activities under the 13% account when it proposed the establishment of workshop facilities for vehicle repair.         | 04/12/2000       |



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Audits of OIP and UNOHCI

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|----------|--------------------|--|--|------------------|
| 6        | AF00/50/5          | <i>Security issues in Northern Iraq</i><br><br>Audit of <b>security issues in Northern Iraq</b> including radio check procedures, assessment of communications operations in emergencies, hiring of local guards and housekeepers at residences and access control for contractor and service personnel. | Observes that in some instances UN staff have not been responding promptly to radio checks by the United Nations Guard Contingent in Iraq. Also reports that many UN staff do not keep their radios in operation.  | 05/12/2000       |
| 7        | AF00/50/5          | <i>Hazard pay</i><br><br>Audit of <b>hazard pay</b> made to staff members in Iraq.   | Finds that Movement of Personnel (MOP) requests, which should be cleared before any travel is undertaken, were in some instances authorized after a trip had commenced. Also finds that hazard pay was not always disbursed on a regular monthly basis but, in some cases, after two or more months. Notes that payroll for local staff was prepared without certified timesheets, and that some personnel included on list had been on leave for extended periods of time.                                    | 25/02/2001       |
| 8        | AF01/31/3          | <i>Cash operations in Northern Iraq</i><br><br>Audit of controls over <b>cash functions in Northern Iraq</b> .   | Reports banking operations for which UNOHCI paid a fee without clear approval from UN Controller. Also reports that the UNOHCI cashier handles approximately \$60,000 per month in excess of the ceiling imposed by the UN Controller. Notes that there are no specific records kept by cashier's office for these transactions. Determines that the exchange rates used by UNOHCI for conversion between US Dollars and Old Iraqi Dinars were "ad-hoc" and "not based on any scientific or logical analysis." | 02/03/2001       |
| 9        | AF01/30/2          | <i>Cash Management - petty cash funds</i><br><br>Audit of <b>petty cash funds</b> maintained in the UNOHCI Office in Baghdad.  | Finds several irregularities, notably that no guidelines have been established on what expenditures may be charged to petty cash and that no account book is maintained by the petty cash custodian.   | 25/05/2001       |

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Audits of OIP and UNOHCI

| <b>IIC Ref.</b> | <b>OIOS Assignment ID</b> | <b>Title</b>   | <b>IIC Summary of OIOS Findings and Recommendations</b>   | <b>OIOS Report Date</b> |
|-----------------|---------------------------|--|---|-------------------------|
| 10              | AF01/30/5                 | <i>UNOHCI Medical Services Unit</i><br><br>Audit of the internal controls of various activities at the <b>Medical Services Unit</b> of UNOHCI in Baghdad.  | Reports that the Medical Service Unit does not record costs of individual medical evacuations, as is required. Also notes an instance of payment for retained accommodation for a staff member on sick leave outside the mission area.  | 06/11/2001              |
| 11              | AF01/31/2                 | <i>Review of OIP/UNOHCI operations in Northern Iraq</i><br><br>Review to follow-up on the progress to implement and improve on the coordination and monitoring function of <b>OIP and UNOHCI</b> in Northern Iraq. | Reports that project documentation submitted to UNOHCI by various agencies varies considerably in quality, detail and justification. Advocates the development of a standard project framework for all UN agencies executing SRC 986-funded projects. Suggests that this framework include key performance indicators to monitor activities such as start dates, delays, rates of implementation and beneficiaries. | 19/12/2001              |

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Audits of OIP and UNOHCI

| IIC Ref. | OIOS Assignment ID | Title   | IIC Summary of OIOS Findings and Recommendations  | OIOS Report Date |
|----------|--------------------|---|---|------------------|
| 12       | AF02/23/4          | <i>Review of SCR 986 (1995) Programme activities in Iraq</i><br><br>Review of SCR 986 implementation in Iraq including <b>coordination between UNOHCI and Agencies.</b>                             | Describes problems with the replacement of key personnel, including the Deputy Humanitarian Coordinator in Northern Iraq and recommends the establishment of a succession strategy. Recommends that OIP staff members in NY make frequent trips to Iraq to better inform the OIP director of conditions on the ground. Advises on the use of locally generated funds and the need to increase inter-agency coordination in project planning. Recommends that OIP and UNOHCI provide clear and timely guidelines on UN-Habitat-related construction projects. Also recommends that OIP and UNOHCI approach UN agencies to improve data collection under the Joint Humanitarian Information Centre.   | 22/04/2002       |
| 13       | AF02/21/1          | <i>Procurement in UNOHCI</i><br><br>Audit of <b>procurement activities at UNOHCI</b>  | Notes that procurement during the period Jan-Dec 2001 included a large number of orders under \$5,000, which under normal procurement procedure should have been consolidated. Also notes a large increase in number of orders placed in December 2001—a “rush expenditure” indicative of poor planning and strategy. Reports that fax was the most common vehicle for the submission of bids, that bid documents were often stored in non-secure locations and that no record was made of the name and designation of the person opening the bid other than unidentified signatures. Identifies numerous instances of duplicate or triplicate entry in the REALITY vendor database. Advocates a two-day maximum window period between receipt of bid and opening. Also advocates a request for “blanket approval” of similar or related items from 661 Committee to avoid unnecessary delays in the procurement process. | 11/06/2002       |
| 14       | AF01/30/6          | <i>Audit of the Management of the Oil Inspection Services Contract</i><br><br>Audit of the management of the oil inspection services contract between the United Nations and <b>Saybolt Eastern</b> | Finds “substantial” losses resulting from overcharging and “unjustified and unsubstantiated expenditures.” Determines that inadequate procedures in Saybolt invoices led to overpayments of \$186,000. Notes that charges for transportation were gratuitous in light of the Government of Iraq’s (GOI) frequent practice of providing these services free of charge. Also notes that audit visits were not undertaken, resulting in  | 03/07/2002       |

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| IIC Ref. | OIOS Assignment ID | Title  | IIC Summary of OIOS Findings and Recommendations   | OIOS Report Date |
|----------|--------------------|--|--|------------------|
|          |                    | <b>Hemisphere B.V.</b>   | overpayment of approximately \$270,000. Reports a lack of documentation in the bidding procedure for a contract valued at \$235,350. Questions the payment of \$1.2 million for Saybolt's equipment in light of the cost of the actual items procured. Advocates the recovery of money lost in overcharges and the establishment of a contract management unit in Iraq.  |                  |
| 15       | AF02/22/1          | <i>Comprehensive Review of UN Guards Contingent in Iraq (UNGCI)</i><br><br>Audit of the <b>UNGCI</b> set up to protect UN personnel and assets in Iraq.  | Recommends that UNGCI be allowed a greater degree of control over its own budgeting and expenditure. Also recommends that a liaison be appointed to enable greater coordination between UNOHCI and UNGCI. Notes that UNGCI needs a reliable database of UN personnel in New York in order to fulfill its obligations. Suggests improvements to radio check procedures. Advocates the formulation of specific guidelines for emergency preparedness.  | 01/08/2002       |
| 16       | AF02/21/3          | <i>Processing of Travel (F-10) claims</i><br><br>Audit of the <b>process for reimbursing travel claims</b> for international staff working in Northern Iraq.                                   | Analyzes the efficiency of travel reimbursement procedures. Notes common practice of not submitting requests for reimbursement until several days or weeks after return from travel. Describes "bottleneck" in reimbursement claims process. Advocates the appointment of a "Certifying Officer" to reduce processing delays.  | 10/08/2002       |
| 17       | AF01/35/1          | <i>Audit of budget practices for SCR 986 2.2 per cent account</i><br><br>Audit of the <b>2.2% budget practices and procedures</b> for UN Agencies implementing the Programme in Northern Iraq. | Reports that the roles of OIP, UNOHCI and Controllers' Office were not clearly defined, resulting in significant revisions to budget by Controllers' Office. Notes that over-reliance on audited financial statements prevented OIP and Controllers' Office from verifying expenditures. Also notes that OIP did not confirm the authenticity of certification of monthly financial reports and did not determine if interest amounts paid by UN agencies were accurate. Observes that the opening of offices in Amman by five distinct UN agencies led to duplication of tasks. | 26/08/2002       |

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| IIC Ref. | OIOS Assignment ID | Title   | IIC Summary of OIOS Findings and Recommendations  | OIOS Report Date |
|----------|--------------------|---|---|------------------|
| 18       | AF02/21/2          | <i>Audit of information technology and communications in UNOHCI</i><br><br>Audit of various <b>IT and Telecommunications issues at UNOHCI.</b>  | Notes that there is no separate IT unit for UNOHCI, despite the need for “inputs from a cross-section of IT users” to address local concerns. Advocates more stringent policies on password protection. Also advocates restricting e-mail access to “those who need it.” Encourages reform of billing procedures for voice communication operations.  | 23/10/2002       |
| 19       | AF02/23/1          | <i>Management of contract for the provision of inspection agents in Iraq</i><br><br>Audit of the management of the oil inspection services contract between the United Nations and <b>Cotecna Inspection S.A.</b>             | Reports that Cotecna did not perform its duties satisfactorily in the northern regions of Iraq, leading to significant discrepancies between its figures on imported goods and those of UN agencies operating in the region. Also reports that there was no independent verification of attendance records and that Cotecna sometimes maintained a lower staff presence than was required by its contract. Notes that Cotecna did not perform 24-hour services at Zakho and Trebil and that no remedial action was taken by OIP. Determines that increase in the per-man day fee from \$499 as specified in the original contract to \$600 was inappropriate. Advocates the recovery of an “appropriate amount” of money from Cotecna based on its underperformance. Suggests a reduction in contract price if a corresponding reduction in working hours is deemed acceptable. | 08/04/2003       |
| 20       | AF03/98/1          | <i>Preliminary review of OIP procedures pursuant to SCR 1472</i><br><br>Audit of procedures established by OIP’s Contract Processing and Monitoring Division (CPMD) for the <b>amendment of the contracts under SCR 1472.</b> | Determines that OIP lacks the expertise to handle contract amendments and is “not in the best position” with regard to procurement and contract negotiation skills. Notes that that CPMD does not have staff trained in UN procurement procedures. States that amending contracts is a procurement function and only officials authorized by the Office of Central Support Services can undertake such activities. Advocates that OIP hire procurement experts, request assistance from the Office of Legal Affairs and obtain formal authorization to enter into contract negotiations. Also recommends that OIP issue guidelines to UN agencies for amending contracts.   | 24/04/2003       |

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**Audits of OIP and UNOHCI**

| <b>IIC Ref.</b> | <b>OIOS Assignment ID</b> | <b>Title</b>  | <b>IIC Summary of OIOS Findings and Recommendations</b>  | <b>OIOS Report Date</b>    |
|-----------------|---------------------------|---|--|----------------------------|
| 21              | AF03/22/1                 | <p><i>Review of the Programme Analysis, Monitoring and Support Division of the Office of the Iraq Programme</i></p> <p>Audit of the efficiency and effectiveness of operations within the <b>Programme Analysis, Monitoring and Support Division of the Office of the Iraq Programme</b>. [Note that this report was not formally issued by Internal audit]</p> | <p>Determines that the role of PAMSD “as a policy-making organ, a monitoring body for field operations, and advisors to the Executive Director” has grown increasingly “marginal.” Reports that PAMSD’s failure to develop and implement policy decision in a timely manner has led to a lack of coordination in project implementation in Northern Iraq. Cites several examples of unimplemented policy decisions, including a proposal to purchase wheat locally and guidelines for the management of locally generated funds. Also notes a lack of structure and planning in PAMSD’s activities, poor communication between PAMSD and the Executive Director’s office and the absence of key performance indicators to assess PAMSD operations. Critiques delays in the development of guidelines for field operations.</p> | 12/06/2003<br>(not issued) |

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## INTERNAL AUDIT REPORTS ON THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME

DESA Audits

| IIC Ref. | OIOS Assignment ID | Title   | IIC Summary of OIOS Findings and Recommendations  | OIOS Report Date |
|----------|--------------------|---|---|------------------|
| 22       | AH99/7/2           | <p><i>OIOS audits of the oil-for-food programme and OIP-funded DESA-executed project IRQ97003</i></p> <p>Audit of coordination between the United Nations Development Programme (UNDP) and Department of Economic and Social Affairs (DESA) relating to Project IRQ97003-<b>Rehabilitation of the Electricity Network</b> in Northern Iraq.</p> | <p>Reports a lack of coordination and formal arrangements between DESA and UNDP on the Direct Execution modality with regard to several contracts valued at over \$90 billion collectively. Also reports that UNDP charged “significant expenditures” to an OIP-funded UNOPS-executed project (United Nations Office for Project Services). Advocates that OIP establish a monitoring system and commission periodic audits by UN agencies executing OIP-funded projects.</p>   | 06/03/2000       |
| 23       | AH99/4/3           | <p><i>OIOS audit of DESA Project IRQ 97003</i></p> <p>Audit of Project IRQ97003-<b>Rehabilitation of the Electricity Network in Northern Iraq</b>. [follow-up to previous]</p>  | <p>Finds significant delays in completion of projects. Reports that no substantial goods were delivered until Phase III and that as of 31 December 1999, only \$37.2 million worth of equipment out of \$104.5 budgeted had been delivered. Details status of ongoing projects that had been scheduled for completion by 1997. Identifies the causes of poor performance as: 1) insufficient equipment specifications; 2) ineffectiveness of the procurement process; 3) inadequate support staff; 4) delayed recruitment of technical staff; and 5) lack of coordination among DESA staff.</p> | 14/11/2000       |

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## INTERNAL AUDIT REPORTS ON THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME

Treasury Audits

| IIC Ref. | OIOS Assignment ID | Title   | IIC Summary of OIOS Findings and Recommendations   | OIOS Report Date |
|----------|--------------------|---|--|------------------|
| 24       | AF01/34/1          | <p><i>Audit of the Iraq Escrow Account treasury and cash management functions</i></p> <p>Audit of <b>Treasury and cash management functions</b> of the Iraq Escrow Account including investment policies, bank reconciliation procedures and the reliability of IT systems.</p> | Determines that investment of the Iraq Escrow account funds is inconsistent with the UN Common Principles and Policies for Investment (CPPI), limiting investments of UN controlled funds to 5% of total capital per institution. Notes that the primary cause of this discrepancy is GOI's reluctance to nominate institutions other than BNP to issue humanitarian letters of credit ("LCs"). Advocates the development of a plan for the diversification of humanitarian LCs and investments beyond currently approved institutions. Also suggests the appointment of a representative from the Central Bank of Iraq to act as consultant in the development of investment policies.  | 11/12/2001       |
| 25       | AF03/105/1         | <p><i>Follow-up audit of UN Iraq Escrow Account Treasury and cash management functions</i></p> <p>Follow-up audit of the <b>Escrow Account treasury and cash management functions</b>.</p>  | Reports that the Treasury has done a "credible job" managing the escrow account in light of the complexity of the operation. Reports that the amounts held in individual banks exceed the maximum limits as specified in the Common Principles and Policies for Investment (CPPI). Notes inconsistency between CPPI rating minimum and that specified in the banking agreements prepared for OFFP-related activities. Also notes the transfer of \$1 billion from the escrow account to CBI/Development Fund for Iraq ("DFI") more than two weeks before the DFI was formally established. Determines that no mechanism has been created to verify the amount of funds transferred from the escrow account to the UNCC Fund. Reports instances of non-implementation of previous OIOS recommendations, including the creation of an investment committee. Provides recommendations on bank reconciliation. | 19/11/2003       |



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## INTERNAL AUDIT REPORTS ON THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME

**UN-Habitat Audits**

| <b>IIC Ref.</b> | <b>OIOS Assignment ID</b> | <b>Title</b>  | <b>IIC Summary of OIOS Findings and Recommendations</b>   | <b>OIOS Report Date</b> |
|-----------------|---------------------------|---|---|-------------------------|
| 26              | AF00/101/1                | <i>Audit of the UNCHS Settlement Rehabilitation Programme in Northern Iraq</i><br><br>Audit of <b>UN-Habitat Operations in Iraq</b> including assessment of the efficiency and effectiveness of local contractor procurement procedures, project monitoring and evaluation of completed projects. | Finds significant irregularities in the hiring and evaluation of contractors. Notes that UN-Habitat does not conduct any systematic review of contractors' qualifications and relies on lists provided by local authorities. Adds that a comprehensive mechanism for evaluating contractor performance has not been established and that there has been little segregation of duties by field offices overseeing procurement activities. Questions cash payments of \$500,000 per year to building inspectors who do not provide any services to UN-Habitat. Advocates the establishment of a professional procurement section.   | 05/01/2001              |
| 27              | AF01/32/2                 | <i>UNCHS Settlement rehabilitation project in Northern Iraq</i><br><br>Audit of the <b>contract tendering and contract management procedures</b> , as well as financial and administrative procedures at UN-Habitat.  | Reports that appropriate procedures have not been established to determine claims for liquidated damages. Notes that payments to contractors are often made through third-party bank accounts without the formal agreement of contractors. Determines that cost estimates prepared by UN-Habitat to assess bids were not based on verifiable data. Also determines that contract procurement procedures had numerous irregularities, including a lack of clear written guidelines or provisions for the segregation of duties, and were often based on competition among an insufficient number of contractors.   | 26/02/2002              |
| 28              | AF02/24/2                 | <i>Audit of procurement of construction and other equipment</i><br><br>Audit of <b>procurement activities related to construction activities</b> at UN-Habitat.   | Reports lack of systematic physical verification system for procured construction items and notes errors in inventory listing. Also reports inefficient use and non-use of generators procured to pump water. Notes various inefficiencies and gaps in maintenance and disposal of construction equipment. Also notes erratic contract management and non-renewal of certain contracts after their respective expirations. Determines that UN-Habitat rarely prepares procurement plans for equipment and does not routinely coordinate with other agencies such as UNDP. Observes that procurement requests should be "generic in nature" but in practice often specified particular brands. | 25/11/2002              |

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**UN-Habitat Audits**

| <b>IIC Ref.</b> | <b>OIOS Assignment ID</b> | <b>Title</b>  | <b>IIC Summary of OIOS Findings and Recommendations</b>  | <b>OIOS Report Date</b> |
|-----------------|---------------------------|---|--|-------------------------|
| 29              | AF02/24/1                 | <p><i>Management Audit of UN-Habitat Settlement Rehabilitation Programme (SRP) in Northern Iraq.</i></p> <p>Audit of the implementation of the <b>delegation of procurement authority</b> and related procedures at UN-Habitat.</p> | Describes a “situation of mismanagement” resulting in a loss of over \$2 million that could grow to more than \$12 million. Determines that the failure to remove a currency fluctuation clause from construction contracts led to losses of \$1.7 million. Also determines that in 2001-02 local authority personnel not employed or providing services to UN-Habitat were paid \$625,000. Criticizes the bidding process for construction contracts. Sharply criticizes UN-Habitat’s failure to implement 34 out of 45 previous audit recommendations. Notes numerous other operational failures. States that the issues discussed in the report require “urgent attention.” | 30/06/2003              |
| 30              | AF03/93/1                 | <p><i>UN-Habitat Settlement Rehabilitation Programme processing of payments of interim and final invoices for construction contracts</i></p> <p>Audit of <b>payments processing function</b> at UN-Habitat.</p>                     | Reports discrepancies in database tracking system and advocates improvements in the system’s integrity and reliability. Recommends the formulation of procedures to handle and process the bulk receipt of invoices. Advocates random verification of invoices to ensure proper calculations and adherence to contract terms. Notes \$256,420 in “outstanding unliquidated obligations.”   | 24/07/2003              |

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## INTERNAL AUDIT REPORTS ON THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME

**Liquidation Audits**

| <b>IIC Ref.</b> | <b>OIOS Assignment ID</b> | <b>Title</b>   | <b>IIC Summary of OIOS Findings and Recommendations</b>  | <b>OIOS Report Date</b> |
|-----------------|---------------------------|--|--|-------------------------|
| 31              | AF03/23/1                 | <i>Audit of UN-Habitat SRP liquidation planning</i><br><br>Audit of UN-Habitat's <b>liquidation plan</b> in respect of the termination of the Oil-for-Food Programme.                                | Advocates that UN-Habitat document the assignment of responsibilities for overall liquidation to the Acting Programme Director to ensure that he is accountable. Also advocates UN-Habitat, in conjunction with UNOHCI, develop policy guidelines for the Settlement Rehabilitation Program's liquidation activities. Notes that some timetables, including an overall liquidation schedule and a detailed strategy for the termination of procurement activities, have not been prepared. | 18/09/2003              |
| 32              | AF03/21/2                 | <i>UNOHCI liquidation – Human resources management</i><br><br>Audit of <b>Human Resource management issues relating to the closure of UNOHCI.</b>  | Finds that downsizing plans prepared by administrative and programme component of UNOHCI have no “discernable function links” and need consolidation. Reports the extension of contracts for evacuated personnel and the retention of observer personnel after the termination of observer functions in Iraq. Notes transfer of essential staff to other missions without consultation of UNOHCI administration.   | 05/11/2003              |
| 33              | AF03/21/1                 | <i>UNOHCI liquidation – Liquidation planning</i><br><br>Audit of the <b>liquidation planning within UNOHCI</b> including assessing progress of the remaining tasks to be completed prior to closure. | Finds that UNOHCI has adequately planned its liquidation activities but that implementation has been slow. Advocates the creation of a liquidation task force and the establishment of key performance indicators to measure progress.   | 17/11/2003              |
| 34              | AF03/21/4                 | <i>UNOHCI liquidation – Procurement issues</i><br><br>Audit of <b>procurement activities at UNOHCI</b> specifically in respect of the closure of the mission.  | Reports “no improprieties” but does identify “weak internal controls” and a need for increased communication between sections to facilitate the completion of outstanding contracts. Details some outstanding contracts and suggests means of achieving closure. Also notes instances of <i>ex post facto</i> raising of contract values and possible overcharging.  | 28/11/2003              |

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## INTERNAL AUDIT REPORTS ON THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME

**Liquidation Audits**

| <b>IIC Ref.</b> | <b>OIOS Assignment ID</b> | <b>Title</b>  | <b>IIC Summary of OIOS Findings and Recommendations</b>  | <b>OIOS Report Date</b> |
|-----------------|---------------------------|---|--|-------------------------|
| 35              | AF03/23/2                 | <i>Audit of UN-Habitat SRP Asset management</i><br><br>Audit of arrangements in place to properly manage the <b>handover of the assets to the Coalition Provisional Authority</b> . | Advocates that UN-Habitat adjust its records to reflect the diversion of some goods purchased under the 13 percent fund for use on administrative activities under the 2.2 percent fund. Also advocates that UN-Habitat ensure that its property records for assets purchased under the 13 percent and 2.2 percent accounts are reconciled with those of Headquarters. Reports some instances of missing, obsolete or loaned out items that were physically verified by UH-Habitat.  | 08/12/2003              |
| 36              | AF03/21/5                 | <i>UNOHCI liquidation –Financial management</i><br><br>Audit of <b>financial activities at UNOHCI</b> in light of the closure of the mission.                                       | Reports that liquidation was a slow process and that administrative restructuring hindered UNOHCI's ability to address outstanding contractual and financial issues prior to the turnover of field accounts. Advocates the creation of an "internal mechanism" to ensure that liquidation activities are conducted on a priority basis. Notes errors in bank reconciliations and inadvisably high account balances in the Erbil cash imprest account. Identifies inconsistencies in Inter Office Billing and Inter Mission Billing. Reports outstanding accounts payable balances. | 13/01/2004              |

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## INTERNAL AUDIT REPORTS ON THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME

UNCC Audits

| IIC Ref. | OIOS Assignment ID | Title   | IIC Summary of OIOS Findings and Recommendations  | OIOS Report Date |
|----------|--------------------|---|---|------------------|
| 37       | AE97/278/2         | <i>Management review of the UNCC</i><br><br>Report examining the appropriateness of the <b>Commission's organizational structure and management processes</b> .                       | Concludes that UNCC's strategy of extensive reliance on external consultants to quantify losses is "seriously flawed." Adds that UNCC does not have the resources to effectively identify, direct and evaluate consultants. Advocates the establishment of a Loss Qualifications Unit. Also notes significant clarification in roles of two Deputy Executive Secretaries, but cautions that there remains a "significant imbalance" in their respective impacts on UNCC operations.                               | 31/07/1997       |
| 38       | AE97/278/3         | <i>Information technology management at UNCC</i><br><br>Audit covering the manner in which <b>IT</b> was delivered and managed by UNCC's Information Systems Section (ISS).           | Finds use of IT to be "complex and innovative" but offers several suggestions for improvement, including: 1) IT plans should be developed by ISS and approved by senior management; 2) ISS should integrate the control, documentation and quality assurance of programs; 3) ISS should develop plans to integrate claim and payment data across sections; and 4) ISS should formulate contingency plans in the event of major data loss or hardware failures.  | 31/10/1997       |
| 39       | AE98/81/3          | <i>Audit of the contract award for F2 claims</i><br><br>Review of <b>procedures for awarding contract</b> for review of F2 claims.  | Observes a lack of clear criteria for evaluating proposals. Reports that UNCC Legal Service evaluated proposals without involving in-house account and loss adjusting expertise. Determines that the terms of reference were unclear on minimum standards of expertise and required hours and did not provide adequate information on on-site inspections. Notes that UNCC failed to establish clear definitions for the terms "reasonable," "realistic" and "sufficient" in an evaluation of one submission.     | 22/04/1998       |
| 40       | AE98/81/2          | <i>Personnel function</i><br><br>Audit of <b>UNCC personnel system</b> to determine its efficiency, effectiveness and compliance with applicable personnel regulations and practices. | Notes that inconsistency in applying rules and slow recruitment process have led to high staff turnover and low morale. Reports that promotion criteria mostly benefited legal officers. Also reports that rules relating to grading of staff were not consistently applied. Notes that coordination between UNCC and the UN office in Geneva was not adequate. Advocates against recruitment of over-qualified General Services (GS) staff and recommends promotion of over-qualified GS staff already employed. | 25/01/1999       |

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|----------|--------------------|---|---|------------------|
| 41       | AE99/8/1           | <i>Review of the implementation of UNCC integrated database – an interim report</i><br><br>Report on efforts of OIOS to implement a new <b>Integrated Data Base (IDB)</b> at UNCC.  | Recaps efforts of OIOS staff to assist ISS over four phases: 1) assisting ISS in formulating methodologies that would ensure that the functions planned for IDB would match the needs of UNCC’s functional units; 2) reviewing the methodologies that staff would use to monitor and carry out the migration of existing claim data into the IDB; 3) reviewing the actual data migration; 4) reviewing the provisions and procedures used by UNCC for controlling access to IDB and maintaining its data. | 05/10/1999       |
| 42       | AE99/8/3           | <i>OIOS consultancy review of UNCC’s budgetary procedures</i><br><br>Audit evaluating whether current UNCC <b>budgetary procedures</b> are in compliance with relevant UN regulations and rules.  | Concludes that UNCC procedures are in compliance in all aspects considered by the auditors. Notes a clerical error in a draft budget that was later corrected.  | 17/11/1999       |
| 43       | AE99/8/2           | <i>Claims payments and administration</i><br><br>Audit evaluating whether the Claims Payment Section’s (CPS) processing and management of claims, maintenance of records and production of reports helped ensure <b>compliance with various UN protocols</b> . Also covers the adequacy of internal controls to establish a reliable system of claims and the efficiency and effectiveness of the claims payment and distribution system. | Finds that relevant Governing Council Decisions and UN Financial Regulations and Rules were complied with. Also finds that payment records are satisfactorily maintained. Notes that some governments did not promptly reimburse the Compensation Fund for awards made to third party claimants. Advocates that UNCC management “take further steps” to ensure that governments and other paying agents provide audit certificates for payment reports.   | 10/07/2000       |

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|----------|--------------------|--|--|------------------|
| 44       | AE00/26/2          | <i>Procurement of consultancy services</i><br><br>Audit evaluating internal controls in the <b>procurement of consultancy services</b> including the bidding process, evaluation of bids and selection of consulting firms.                      | Identifies weaknesses in system contracts, including inadequate terms of reference, lack of clear criteria for evaluation of bids and lack of formal appraisal of the consultants' performance. Notes that variation orders resulted from additional work requested by the Panels of Commissioners. Reports inconsistencies in the amounts invoiced and paid to consultants in payment records kept by departments in UNCC. Also reports that detailed CVs of prospective team members were not always provided.   | 14/03/2001       |
| 45       | AF01/33/1          | <i>Management review of UNCC phase-out activities</i><br><br>Review of the manner in which <b>staffing issues</b> would affect the work of UNCC during the closing stages of its operations. Also assesses various strategies available to UNCC. | Finds that certain UNCC rules, such as the policy establishing the criteria for filing late claims and the policy for responding to substantial claim queries, have not been adhered to. Reports that significant A and C claims were still being brought to the attention of UNCC, which had to divert resources to address them. Also reports that no formal mechanism has been established to plan and monitor the implementation of the phase out. Notes that an effective document retention strategy has not been formulated. Advocates the creation of a management committee for phase-out planning. | 16/07/2001       |
| 46       | AE01/16/1          | <i>D Claims</i><br><br>Audit <b>reviewing claim cases</b> classified under Category D up to the fifth installment.   | Notes "with satisfaction" that UNCC has established internal controls on claims registration. Finds some instances in which important documents were filed separately from individual claim file. Reports four cases in which valuation methodology was not consistently applied. Recommends that UNCC provide documentary evidence to justify its evaluation of these four cases.   | 07/01/2002       |

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|----------|--------------------|--|--|------------------|
| 47       | AF02/27/2          | <i>F2 category claims</i><br><br>Audit of the <b>first installment of F2 category claims</b> . Examines twenty claims submitted by the Government of the Hashemite Kingdom of Jordan with an asserted value of \$6,602,363,972, in response to which the Governing Council approved an amount of \$72,205,599. | Determines that the “alternative methodology” developed by UNCC is “transparent, fair and objective.” Notes deficiencies in calculations of camp preparation and health service costs.   | 06/03/2002       |
| 48       | AF02/26/1          | <i>D claims – problems and suggestions</i><br><br>Review of correspondence relating to the problems in the <b>closure of D Category Claims</b> twelfth (part one) and thirteenth installments.   | Notes numerous deficiencies in the VVSB Internal Audit team, in particular that the team did not have enough time to conduct its work and that the audit was not “truly independent.” Notes response by UNCC to this evaluation and approves of steps taken. Determines that even though claims are processed in an effective manner, management is not efficient and needs improvement. Recommends that the VVSB quality insurance unit should be independent of the Claims Processing Division.                                | 20/06/2002       |
| 49       | AF02/27/5          | <i>E/F category claims</i><br><br><b>Report covering 15 claims</b> for losses totalling US\$382.7 million. Reviews 2 of the 15 claims seeking compensation for \$112.6 million or 29 per cent of the total asserted value.   | Concludes that in general UNCC has established adequate internal controls on processing the fourth installment of “E/F” claims. Determines that a decision of the UNCC Governing Council appears to have been circumvented with regard to claim 5000059, made by <i>Fonds de Garantie Contre les Actes de Terrorisme</i> . Also notes an instance in which a total claim amount was increased after the stipulated deadline. Relays a number of “minor issues” relating to compensation that were uncovered during a test check. | 15/11/2002       |



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|----------|--------------------|---|---|------------------|
| 50       | AF02/108/1         | <i>Risk assessment of UNCC</i><br><br><b>Profile of significant risk areas</b> that may be obstacles in fulfilling UNCC's objectives. Includes a risk-based audit strategy to ensure adequate coverage of high-risk areas.  | Concludes that while the processing controls are generally adequate, the very nature of UNCC's work, the high reliance on consultants and the use of panels as a control mechanism may expose UNCC to various types of irregular activities. Notes that the Panel of Commissioners was a major safeguard in claims processing.  | 12/09/2002       |
| 51       | AF02/25/1          | <i>E category claims – 22<sup>nd</sup> installment</i><br><br><b>Audit covering 13 claims</b> for losses totalling \$277.4 million that resulted in the Governing Council awarding \$13.69 million.   | Evaluates the reasonableness of the procedures used to arrive at the compensation awarded. Notes deficiencies in processing of claim 4000826, made by Energoprojekt, in which claimant's stated loss differed significantly from OIOS's estimation. Reiterates earlier recommendation that Energoprojekt be reimbursed only for losses as estimated by UNCC.          | 16/04/2003       |
| 52       | AF02/27/1          | <i>F1 category claims</i><br><br>Report covering claims from the Report and Recommendations made by the Panel of Commissioners concerning the Fifth and Sixth installment of F1 claims. Reviews whether there were <b>adequate controls</b> to ensure compliance with Security Council resolutions and decisions of the UNCC Governing Council. | Concludes that the claims it reviewed were generally in compliance with the UNCC Governing Council's decisions. Notes deficiencies in the valuation and verification of the claims and recommends that UNCC re-examine the claims to ensure that claimants have not been overcompensated. Reviews in detail claims made by the governments of Israel, Egypt and Iran. | 22/04/2003       |
| 53       | AF02/27/3          | <i>F3 category claims</i><br><br>Audit of Part Two of the third installment of <b>F3 claims</b> . Reviews three of the four   | Identifies numerous deficiencies in valuation and verification of claims, including: 1) overlapping claims for similar items; 2) failure to consider cost-saving measures; currency exchange errors; 3) calculation errors; 4) claim compensation on insufficient evidence; 5) inadmissible claims;   | 30/03/2004       |

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|          |                    | claims with an asserted claim amount of \$4.7 billion.   | and 6) inconsistent application of recommended adjustments. Notes that the Secretariat has accepted errors totalling approximately \$3.2 million.  |                  |
| 54       | AF03/820/02        | <i>Audit of UNCC E1 Claims: 10<sup>th</sup> installment</i><br><br>Audit of the tenth installment of <b>E1 claims</b> , consisting of eight claims submitted to the panel, which recommended awards totaling \$76,978,482.       | Concludes that the UNCC practice of determining the dollar value of claims made in foreign currencies by using currency conversion rates from the date of loss, rather than the date of payment, risks overpayment and is not fair to those who submitted claims in US dollars. Determines that overpayment under this system totaled approximately \$2.2 billion and that UNCC will overpay \$1.27 billion in the future if no changes are made. Also concludes that there were inadequate internal controls to mitigate the risk of overcompensation, inconsistent practices and inadequate procedures.  | 30/06/2004       |
| 55       | AF04/820/03        | <i>Audit of "D1" claims: 19<sup>th</sup> installment, part 3</i><br><br><b>Audit of claims</b> contained in part three of the nineteenth installment of individual claims for damages exceeding \$100,000 submitted to D1 panel. | Finds that procedures are in place to avoid overpayment and duplicate payment. Notes that there is a risk of fraud in cases where the original claim does not have adequate supporting documentation and the claimant subsequently supplies these documents after article 34 notification by UNCC. Also notes that some "key issues" like compensability of claim preparation costs and calculation/payment of interest on awards have not yet been decided. Determines that UNCC did not always award the "lowest replacement value in 1990" for claims relating to high value or unique personal property, which led to overcompensation of \$860,000 in one instance. Advocates that UNCC develop a provision to levy a penalty in the event of fraud to avoid wastage of resource. | 25/10/2004       |

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**Summary Reports**

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|----------|--------------------|---|---|------------------|
| 56       | AF00/48/4          | <p><i>OIP/UNOHCI Operations in No. Iraq – Issues resulting from the audit of UNCHS Settlement Rehabilitation Programme in Northern Iraq</i></p> <p><b>Findings and recommendations</b> addressed to the Office of the Iraq Programme as a result of the audit of UN-Habitat (AF00/101/1).</p> | <p>Advocates that UNOHCI review the legality of payments to local authority personnel and formulate project selection and post-implementation evaluation guidelines.</p>  | 08/12/2000       |
| 57       | AF02/23/2          | <p><i>General Assembly report - Update of oversight activities concerning the oil-for-food programme and UNCC (A/56/903)</i></p> <p><b>Update report</b> to the United Nations General Assembly on the Oil-for-Food Programme.</p>  | <p>Provides history of the constitution of the Iraq Programme Audit Section (IPAS) at OIOS. Notes that audit coverage of the Programme has increased substantially since the establishment of IPAS and outlines the scope of IPAS' auditing responsibilities. Explains that the initial phase of OIOS auditing focused on field activities in Iraq, principally the activities of UNOHCI, but that the second phase saw the establishment of a supplementary auditor post and the expansion of coverage to OIP and UNCC. Adds that field activities in Northern Iraq remain the highest priority. Notes efforts to coordinate IPAS auditing activities with those of the internal audit bodies of the nine UN agencies active in Iraq. Provides updates on issues discussed in a recent OIOS report, including the hiring of inspection agents in Iraq and procurement and project-management operations under UNOHCI. Notes UNCC's rejection of some of the recommendations made by OIOS in a recent audit. Describes UNCC's implementation of OIOS's recommendations as generally satisfactory.</p> | 04/04/2002       |

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**Summary Reports**

| IIC Ref. | OIOS Assignment ID | Title  | IIC Summary of OIOS Findings and Recommendations  | OIOS Report Date             |
|----------|--------------------|--|---|------------------------------|
| 58       | AF03/120/1         | <p><i>General Assembly report on “Oil-for-food” programme activities</i></p> <p><b>Summary and conclusions</b> of OIOS audits of the Oil-for-Food Programme.</p> | <p>States that OIOS is of the view that the overall management of OFFP is “not fully satisfactory” but adds that no allegations of irregular activities involving OIP personnel were brought to OIOS’ attention. Advocates a comprehensive “lessons learned review” of OIP operations. Finds that: the overall direction and management of OIP needed improvement and that communication between the Executive Director and UNOHCI needed strengthening. Advocates a more clearly defined organization structure for future operations of a similar nature. Determines that UN Treasury established appropriate internal controls for letters of credit, but that UN Common Principles and Policies for Investment (CPPI) were routinely in violation. Concludes that there was a need to develop a standard project framework to be followed by all UN agencies executing SRC 986-funded projects. Also finds that there was an inadequate segregation of duties in the selection of contractors for UN-Habitat settlement programs. Also concludes that UNCC, in processing a large volume of high-value and complex claims, overcompensated certain parties by approximately \$557 million. Notes that UNCC only accepted \$3.3 million of the reductions proposed by OIOS and that currency adjustment clause in construction contracts for the settlement program led to financial losses.</p> | <p>2004<br/>(not issued)</p> |