

GAO

Report to the Permanent Subcommittee
on Investigations, Committee on
Homeland Security and Governmental
Affairs, U.S. Senate

November 2009

UN OFFICE FOR PROJECT SERVICES

Management Reforms
Proceeding but
Effectiveness Not
Assessed, and
USAID's Oversight of
Grants Has
Weaknesses



GAO

Accountability * Integrity * Reliability



Highlights of [GAO-10-168](#), a report to the Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

The United Nations (UN) Office for Project Services (UNOPS) provides numerous services for its clients, including procurement and project management. Recent audits and investigations of UNOPS have revealed alleged violations of law, weak internal controls, and financial mismanagement. UNOPS officials misused some of the more than \$400 million awarded to UNOPS by the U.S. Agency for International Development (USAID) from 2004 through 2008. GAO was asked to (1) assess the extent to which UNOPS has addressed key concerns about its internal controls, and (2) evaluate USAID's oversight of UNOPS-implemented projects. To address these objectives, GAO reviewed UNOPS and USAID policies and grant documentation.

What GAO Recommends

GAO recommends that the Secretary of State work with other member states to encourage UNOPS's continued reform in areas of vulnerability identified by UN auditors and assessment of the effectiveness of the reform effort. We also recommend that the USAID Administrator ensure that USAID document its approach for assessing PIOs' eligibility for USAID funding and improve its guidance, training, and monitoring relating to the use of PIO audit provisions. State and USAID agreed with our recommendations. UNOPS acknowledged the need for an assessment of reforms, but stated that improvements have already been demonstrated.

View [GAO-10-168](#) or [key components](#). For more information, contact Thomas Melito at (202) 512-9601 or melitot@gao.gov.

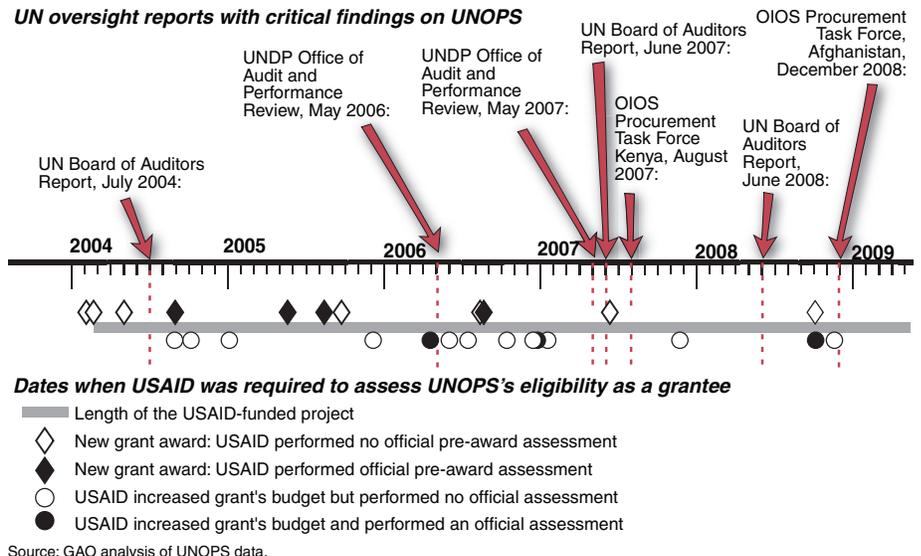
UN OFFICE FOR PROJECT SERVICES

Management Reforms Proceeding but Effectiveness Not Assessed, and USAID's Oversight of Grants Has Weaknesses

What GAO Found

While UNOPS management continues to implement reforms that address key concerns raised by audits and investigations, the effectiveness of some implemented reforms has not been assessed. Management efforts to improve UNOPS include (1) development of UNOPS's project tracking system, Atlas; (2) establishment of an internal oversight office; and (3) establishment of an ethics office. While changes to Atlas have improved UNOPS's financial documentation, UNOPS does not systematically assess data reliability in Atlas. Although UNOPS's internal oversight has been strengthened by the creation of an oversight office, two phases of an investigation of activities in Afghanistan have not begun. UNOPS had no investigative capacity of its own and had to seek out external investigators for which it is still negotiating the scope and cost. In addition, while UNOPS's ethics office complies with most UN requirements, no one has assessed the effectiveness of the office's activities. Finally, UNOPS's Executive Board lacks full access to internal audit reports that could provide greater insights into UNOPS's operations.

USAID has not consistently implemented its oversight policies when making grant awards with UNOPS and has been vulnerable to program fraud and abuse. While USAID has policies that require it to perform pre-award assessments of Public International Organizations (PIO), such as UNOPS, USAID could not provide official documentation of these assessments for 7 of its 11 awards made to UNOPS from 2004 through 2008. In the 4 assessments USAID provided, there were no statements acknowledging findings of weak internal controls from UN audits and investigations. In addition, USAID did not negotiate to include audit authority for 9 of these awards that would have allowed USAID access to UNOPS project financial records. We found that an absence of clear guidance, training, and monitoring contributed to these failures. USAID's noncompliance with its policies resulted in limited access to data on UNOPS grants that were associated with findings of possible criminal actions.



Contents

Letter		1
	Results in Brief	3
	Background	5
	UNOPS Reforms Are Proceeding, but the Effectiveness of Some Implemented Reforms Has Not Been Assessed	12
	USAID Has Not Consistently Implemented Its Oversight Policies When Making Grant Awards with UNOPS and Has Been Vulnerable to Program Fraud and Abuse	23
	Conclusions	35
	Recommendations for Executive Action	36
	Agency Comments and Our Evaluation	36
Appendix I	Scope and Methodology	38
Appendix II	UNOPS's Locations Worldwide	42
Appendix III	Types of Services Provided by UNOPS	44
Appendix IV	Designated International Organizations by the Department of State	46
Appendix V	Results of GAO's Survey of UNOPS Field Office Managers	51
Appendix VI	USAID Oversight Policies for Grants with Public International Organizations	53
Appendix VII	USAID's Documented Pre-Award Assessments of UNOPS	55

Appendix VIII	Comments from the Department of State	57
Appendix IX	Comments from the U.S. Agency for International Development	59
Appendix X	Comments from the UN Office for Project Services	62
Appendix XI	GAO Contact and Staff Acknowledgments	65
Related GAO Products		66

Tables

Table 1: UNOPS Expenditures on Service Delivery Per Year, from 2004 through 2008	7
Table 2: Summary of Critical Findings from Selected UN Audits and Investigations of UNOPS, 2002 through 2008	8
Table 3: UNOPS's Efforts to Comply With Key International Internal Audit Standards	17
Table 4: UNOPS's Efforts to Comply with Key UN Ethics Requirements, as of October 2009	20
Table 5: Audit Provisions USAID Used in Its Awards with UNOPS, 2004 through 2008	30
Table 6: Types of Services Provided by UNOPS	44
Table 7: Department of State Designated International Organizations	46
Table 8: UNOPS Field Office Responses to GAO Survey Question about Atlas Data Reliability	51
Table 9: UNOPS Field Office Responses to GAO Survey Question about Conditions Making Atlas Use Difficult	52
Table 10: USAID's ADS Policies and Provisions for Grants with PIOs	53

Figures

Figure 1: Timing of USAID Grant Awards and Issuance Dates of UN Oversight Reports, 2004 through 2008	28
Figure 2: Locations of UNOPS Offices, as of 2009	43
Figure 3: USAID's Documented Assessments of UNOPS, 2004 through 2008	56

Abbreviations

ADS	Automated Directives System
BOA	Board of Auditors
FASS	Field Administrative Support Service
IIA	Institute of Internal Auditors
MCC	Management Coordination Committee
NGO	nongovernmental organization
OIOS	United Nations Office of Internal Oversight Services
OAA	USAID Office of Acquisition and Assistance
PIO	Public International Organization
PTF	Procurement Task Force
State	Department of State
UN	United Nations
UNDP	United Nations Development Program
UNOPS	United Nations Office for Project Services
USAID	U.S. Agency for International Development

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



United States Government Accountability Office
Washington, DC 20548

November 19, 2009

The Honorable Carl Levin
Chairman
The Honorable Tom Coburn
Ranking Member
Permanent Subcommittee on Investigations
Committee on Homeland Security
and Governmental Affairs
United States Senate

The United Nations (UN) Office for Project Services (UNOPS) provides about \$1 billion a year in services including procurement and project management to UN and other international clients. Since 2002, audits and investigations of UNOPS have revealed alleged violations of law, weak internal controls, financial mismanagement, and breaches in accounting and procurement policies. Several projects that UNOPS implemented with U.S. funds were associated with these adverse findings.

In 2006, UNOPS was near insolvency and the UN Controller placed restrictions—which lasted for about 2 years—on UN agencies’ use of UNOPS services. However, UN entities and U.S. agencies continued to use UNOPS to perform projects in post-conflict nations and other difficult environments because, according to some clients, UNOPS had the capacity to move quickly and maintain a presence in difficult operating environments. The UN Secretary-General appointed new management¹ in 2006 to help restore the financial stability of UNOPS and to make changes that responded to weaknesses identified by UN auditors. The new management team stated that strengthening UNOPS’s internal controls was a major focus. To accomplish this goal, the management team took a number of steps within its first 3 years at UNOPS, including establishing an ethics office in 2006 and an internal oversight office in 2007.²

¹Unless we specify otherwise, the term “management” refers only to UNOPS’s senior management officials.

²Internal oversight and ethics are among the key areas identified in UNOPS’s accountability framework.

From 2004 to 2008, UNOPS spent approximately \$430 million implementing U.S. government grants awarded directly to UNOPS.³ The majority of expenditures from these direct awards—about 92 percent—were from the U.S. Agency for International Development (USAID).⁴ Of the USAID grants awarded to UNOPS from 2004 through 2008, 84 percent were awarded to projects in Afghanistan, where most of the misconduct identified by audits and investigations occurred. As a member of the Executive Board, the United States has expressed concern over weaknesses at UNOPS identified in the UN audit reports. For example, in 2004 a Department of State (State) official at the U.S. Mission to the UN called for UNOPS management to report on steps it was taking to ensure sound financial controls, and encouraged member states to do whatever was necessary to ensure that UN managers implemented the UN audit recommendations. In addition, in 2008, State officials made public statements about UNOPS's internal oversight arrangements and inaccurate inventory reports.

Given the concerns that have arisen regarding UNOPS's management and relationship with UN and U.S. organizations, you asked us to examine oversight and accountability within UNOPS operations. Specifically, this report (1) assesses the extent to which UNOPS has addressed key concerns about its internal controls and (2) evaluates USAID's oversight of UNOPS-implemented projects.

To address these objectives, we examined audits and investigations of UNOPS's activities, interviewed UNOPS officials, and analyzed documents relating to initiatives designed to strengthen UNOPS's internal controls. We also interviewed UNOPS clients in New York, New York; Washington, D.C.; and Geneva, Switzerland. We reviewed applicable professional standards and guidelines for performing audits and investigations, including the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing⁵ and the UN Uniform Guidelines

³UNOPS also spent an additional \$97.8 million of U.S. funds indirectly as a subcontractor on U.S. government projects.

⁴In addition to USAID, the Departments of Defense, State, and Agriculture have funded small grants to UNOPS in Afghanistan, Iraq, and the Occupied Palestinian Territories. USAID categorizes UNOPS as a Public International Organization (PIO), which means that it is an organization established by international agreement and whose governing body is composed principally of foreign governments or other PIOs.

⁵UNOPS adopted the IIA's International Professional Practices Framework, which also includes a Code of Ethics.

for Investigations. For the purposes of our study, we selected key audit and investigation standards to examine the extent to which UNOPS has implemented them. In addition, we prepared and administered a survey to help us assess the extent to which UNOPS's implementation of an electronic project database, Atlas, has strengthened its internal controls.⁶ Finally, we reviewed USAID's acquisitions policies, collected and reviewed documentation from the USAID missions that awarded grants to UNOPS from 2004 through 2008, examined agreements between U.S. agencies and UNOPS during this time, and interviewed USAID officials in Washington, D.C. and at USAID missions in Afghanistan, Haiti, Liberia, and Sudan. Appendix I provides a detailed discussion of our scope and methodology.

We conducted this performance audit from July 2008 to November 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

UNOPS management is taking action to implement reforms that address concerns about the organization's internal controls, as identified by audits and investigations, but the effectiveness of some of the implemented reforms has not been assessed. Examples of management's efforts include (1) the development of UNOPS's centralized project tracking system, Atlas, which is designed to provide project financial data more quickly to management; (2) the establishment of an internal oversight office in 2007; and (3) the establishment of an ethics office in 2006 to provide a mechanism for identifying ethical concerns. While changes to Atlas have improved UNOPS's documentation of financial data, the extent of the improvement is uncertain, because, for example, UNOPS management does not systematically assess the reliability of data in Atlas. Although UNOPS's internal oversight has been strengthened by the creation of an oversight office, 2 phases of an investigation of UNOPS's activities in Afghanistan have yet to begin. UNOPS had no investigative capacity of its own and had to seek out external investigation services for which it is still

⁶Atlas is a corporate Web-based Enterprise Resource Planning system, that includes functions other than project management, such as human resources management. Atlas is used by UNOPS, UNDP, and the UN Population Fund. We refer throughout this report to specific functions of the Atlas system.

negotiating the scope and cost. In addition, while UNOPS's ethics office meets most of the UN Secretary-General's requirements, the extent to which the office is performing its mandated duties is uncertain because the effectiveness of the office's activities has not been assessed. Finally, UNOPS's Executive Board lacks full access to internal audit reports that could provide greater insights into UNOPS's operations.

While USAID's policies for making grants with Public International Organizations (PIO)—such as UNOPS—require it to assess grantees and in some cases to include a provision under which the grantee agrees to give USAID access to oversight information, USAID has not consistently applied these policies when making grant awards with UNOPS. USAID could not provide documentary evidence of required assessments for 7 of the 11 awards to UNOPS issued from 2004 through 2008. USAID did provide evidence of 4 assessments; however, it did not acknowledge the adverse findings from multiple UN audits and investigations, including weaknesses in UNOPS's internal controls and financial management. In addition, for 5 of its 11 awards USAID, as the sole contributor, did not include the required audit provision that would have allowed USAID access to financial records substantiating how UNOPS spent U.S. grant funds. Furthermore, for 4 additional awards, USAID had the discretion, as the largest contributor, to negotiate for the same provision but did not exercise such discretion, even though in 3 cases the only other contributions to the awards were small contributions from UNOPS. The omission of the required audit authority was due to an absence of clear guidance, and no training or monitoring of this provision. USAID's failure to adhere to its policies severely limited its audit access to UNOPS grants that were associated with alleged findings of criminal actions and mismanaged funds. For example, in Afghanistan USAID investigators were unable to acquire information needed to substantiate UNOPS use of USAID grant funds for several projects of concern.

We make recommendations in this report to the Secretary of State to work with member states to (1) support UNOPS's continued reform in areas of vulnerability identified by UN auditors and (2) encourage UNOPS management to assess the effectiveness of the reform effort. We also recommend that the USAID Administrator ensure that USAID (1) develop and document its approach for assessing eligibility of PIOs for USAID funding, (2) define the terms and definitions in its existing guidance on PIO audit provisions permitting USAID access to financial records and documents, (3) ensure that cognizant contracting staff are sufficiently trained on the use of the PIO audit provisions, and (4) establish an

approach to monitor whether the PIO audit provisions are implemented as required.

We requested and received written comments on a draft of this report from State, USAID, and UNOPS. We have reprinted these comments, with our responses, in appendixes VIII through X. State endorsed the main findings and conclusions of the draft report and concurred with the recommendation that it encourage assessment of the impact of UNOPS's reform efforts. USAID concurred with our recommendations and proposed an agency plan to implement each recommendation including target completion dates. Specifically, USAID agreed that it needs to adopt improved procedures, stronger guidance, training, and monitoring related to the use of Public International Organizations (PIO) audit provisions. UNOPS acknowledged the need for assessment of long-term impact of its reforms, but stated that the most recent external audit and improved financial position are indicators that demonstrate improvement. We incorporated technical comments from UNOPS in our report where appropriate.

Background

UNOPS is an Autonomous, Self-Financing UN Entity

UNOPS originated in 1974 as part of the UN Development Program (UNDP), but has since become an autonomous, self-financing UN entity. UNDP, which is the UN's global development agency, established the office to provide flexible procurement services for multidisciplinary projects.⁷ Effective January 1995, the UN General Assembly established UNOPS as a "separate and identifiable UN entity" to provide services to UN organizations and to governmental, intergovernmental, and nongovernmental entities.⁸ At the time UNOPS did not report directly to its

⁷UNDP originally named UNOPS the Office for Projects Execution in 1974 but renamed it the Office for Project Services in 1988.

⁸The Secretary-General had proposed to separate the Office for Project Services from UNDP largely because of the perception of a potential conflict of interest at UNDP. The UN Advisory Committee on Administrative and Budgetary Questions also expressed concerns about the compatibility of the global service provision and project implementation function of OPS with UNDP's primary role as a central coordinating and funding agency.

governing body, the Executive Board,⁹ but instead reported to it through a Management Coordination Committee (MCC) chaired by the UNDP Administrator to provide additional oversight over UNOPS. In September 2008, based on an MCC recommendation, the Executive Board moved to make UNOPS completely autonomous by removing all ties to UNDP. The MCC was renamed the Policy Advisory Committee to reflect its change from being a part of UNOPS's governance structure to now serving in an advisory capacity. As a result, UNOPS's Executive Director now has independent authority and accountability for the conduct of UNOPS's business. See appendix II for a description of UNOPS's locations.

UNOPS was created to be a self-financing entity and does not receive any of its annual budget from assessed or voluntary contributions from member states. All of its resources come as fees-for-service. However, UNOPS does benefit from UN exemptions and immunities.¹⁰ For example, UNOPS is exempt from some taxes and custom duties on imports and exports. According to UNOPS officials, UNOPS and most of its officials can import and purchase goods duty-free.

UNOPS Provides Services to a Range of Clients

UNOPS provides services to a range of UN and other clients. These services include project management, procurement, human resources management, financial management, and UN common services.¹¹ See appendix III for a detailed list of UNOPS services by type. Its clients include governments, UN agencies, international financial institutions, intergovernmental organizations, and nongovernmental organizations

⁹UNOPS, UNDP, and United Nations Population Fund share an Executive Board. The Board comprises representatives from 36 countries who serve on a rotating basis. The members for 2009 are Angola, Antigua and Barbuda, Austria, Azerbaijan, Bhutan, Central African Republic, China, Columbia, Cuba, Denmark, Finland, France, Germany, Haiti, India, Islamic Republic of Iran, Lao People's Democratic Republic, Malawi, Mauritania, Mexico, Netherlands, New Zealand, Norway, Republic of Korea, Russian Federation, Senegal, Serbia, Sierra Leone, Slovakia, Somalia, Sweden, Turkey, United Kingdom, United Republic of Tanzania, the United States, and Yemen.

¹⁰UNOPS officials said that while the UN Convention on the Immunities and Privileges of the United Nations specifies the privileges and immunities that are common to UN activities, personnel, assets, and property, the application of these privileges and immunities vary by country. For example, financial exemptions depend on the exemptions each government extends to the UN agency.

¹¹UN common services include negotiating and administering contracts for shared UN services and designing, contracting, and supervising construction of shared UN buildings and facilities.

(NGO). In addition, UNOPS is responsible for administration of the UN Global Marketplace Web site, which helps connect UN organizations and potential vendors and prepares the annual statistical report on the procurement activities of the UN system.

UNOPS provides many of these services in difficult work environments, such as post-disaster and peace-building settings, developing countries, and economies in transition. Some UNOPS clients said they use UNOPS to implement programs because UNOPS can move quickly and maintain a presence in difficult environments, such as after natural disasters and in post-conflict and politically unstable countries.¹² For example, the UN Children’s Fund used UNOPS as an implementing partner to perform rehabilitation, refurbishment, and other tsunami-related construction projects in Indonesia, Maldives, and Sri Lanka when there were no local contractors on the ground to perform the work. The UN Mine Action Service also uses UNOPS as its implementer of global demining services because UNOPS is one of the few organizations with expertise in mine detection and removal that has a presence in post-conflict and politically unstable countries.

From 2004 to 2008 UNOPS Funding Levels Have Increased

In the last 5 years, UNOPS spent about \$4 billion delivering services to its clients, and its annual service delivery expenditures increased from less than \$500 million in 2004 to more than \$1 billion in 2008. (See table 1 for the amount spent on implementation of projects.) During the same time period, UNOPS’s operational reserve fund fell to as low as \$4.4 million in 2005, but was restored to more than \$30 million in 2008. UNOPS has also increased its annual acquisition of new business from \$728 million in 2004 to \$1.5 billion in 2008.

Table 1: UNOPS Expenditures on Service Delivery Per Year, from 2004 through 2008

U.S. dollars in millions					
Year	2004	2005	2006	2007	2008
Amount	\$495.27	\$888.24	\$706.00	\$850.00	\$1,060

Source: GAO analysis of data from UNOPS annual reports.

¹²According to UNOPS’s management and some of UNOPS’s clients, many other UN service providers do not or will not work in some of the difficult environments where UNOPS does.

Multiple UN Audits Found Widespread Financial Mismanagement and Insufficient Documentation of UNOPS's Financial Transactions

As shown in table 2, UN audits and investigations from 2002 through 2008 have found significant financial mismanagement at UNOPS and a lack of financial transaction documentation.¹³

Table 2: Summary of Critical Findings from Selected UN Audits and Investigations of UNOPS, 2002 through 2008

UN Board of Auditors Report, July 2002

- Insufficient revenue to cover costs.
- Lack of contingency plan if deficits exceed the organization's operational reserve.
- Lack of system that can accurately compute and monitor actual project costs.

UN Board of Auditors Report, July 2004

- Lack of valid information for some costs and financial statements.
- Lack of independently validated internal control framework.
- Lack of information and communications technology strategy.
- Lack of a proper system to estimate the cost of the services provided.

UNDP Office of Audit and Performance Review,^a May 2006

- Lack of compliance with rules, regulations and procedures.
- Absence of written procedures to guide staff.
- Recurring expenditures in excess of approved budget.
- Inadequate or lack of supervision by supervisors.

UNDP Office of Audit and Performance Review,^a May 2007

- Deficiencies in managing project budgets and expenditures in the field.
 - Inaccurate expenditure reporting due to limited use of Atlas in the field.
 - Recurring expenditures in excess of approved budget.
 - Inadequate or lack of supervision by supervisors.
-

¹³The Board of Auditors (BOA) produces reports on a two-year cycle that cover the preceding two years. For example, the BOA issued its report in 2002 for the biennium 2000 to 2001, and its report in 2003 for the biennium 2001 to 2002. The BOA issued a report in 2007 for the biennium 2004 to 2005 because UNOPS did not provide certified financial statements for the biennium in accordance with Financial Regulations and Rules and the audit was temporarily suspended. The BOA 2008 report covered the biennium 2006 to 2007.

UN Board of Auditors Report, June 2007

- Operational reserves below desired level.
- Balances not corroborated by supporting documents or in accordance with accounting records.
- Breakdown in internal controls and financial reporting.
- Lack of transparency and consistency in funding and fee-setting process.

Procurement Task Force,^b Kenya, August 2007

- Lack of integrity and transparency in the UNOPS procurement process.
- Alleged criminal activities to obtain UN contracts and money for personal use.

UN Board of Auditors Report, July 2008

- Unresolved interfund balances with UNDP, UN Population Fund, and other UN entities.
- Shortcomings in assets management.
- Inadequate Atlas project controls.
- Inability to verify financial transactions.

Procurement Task Force, Afghanistan, December 2008

- Alleged embezzlement.
 - Misuse of project and UNOPS funds.
 - Fraudulent and wasteful procurement.
-

Source: GAO analysis of data from UN audit and investigation reports.

^aThe Office of Audit and Performance Review is UNDP's internal audit office.

^bThe Procurement Task Force was created on January 12, 2006, to address all procurement matters referred to the Office of Internal Oversight Services.

The UN Board of Auditors (BOA) is the only external auditor authorized to audit UNOPS's financial statements and reports to member states through the UN General Assembly.

UNOPS Management Has Identified Areas for Reform based on Key Concerns about Internal Controls

The UNOPS management team has identified areas for reform to address previously identified concerns about internal controls. These areas—which include financial documentation, internal oversight, and ethics—are critical to developing a robust internal controls environment and reducing vulnerability to waste, fraud, and abuse.

Audits of UNOPS found deficiencies in financial documentation and reporting, including a lack of required information on UNOPS's costs and financial statements and a lack of documentation corroborating project balances. International internal control standards emphasize that a strong financial documentation system is essential to effective management. Without a system in place that can document timely, accurate, and

complete information, management’s capacity to ensure effective internal audits is limited.

Internal oversight, which includes audits and investigations, provides management with information about the effectiveness of internal controls, compliance with rules and regulations, and proposed corrective measures. Internal audits can be used to track recommendations to ensure that management addresses these areas. UNOPS has adopted Institute for Internal Auditors standards, which are internationally recognized best practices for internal audits. Findings from investigations can be used to hold an organization or individuals accountable for wrongdoing. UN Uniform Guidelines for Investigations require, among other things, that management ensure sufficient resources to perform investigations.

Previous audit reports have highlighted a lack of compliance with rules and a lack of documentation to support financial transactions at UNOPS, suggesting that some of the organization’s practices were at risk of ethics violations. Ethics policies could strengthen the organization’s internal controls environment by helping to ensure accountability and transparency within the organization.

USAID Has Distinct Policies for Awarding Grants with PIOs, including UNOPS

USAID, which provides the large majority of U.S. funding to UNOPS, has policies for making awards with PIOs that are distinct from its policies for making contracts, grants, or cooperative agreements with for-profit, nonprofit, international partners, and other organizations.¹⁴ For grants with PIOs, USAID primarily relies on policies in its Automated Directives System (ADS) 308, which outlines a different set of procedures for making

¹⁴According to USAID policy, a cooperative agreement is used when the principal purpose of the relationship is the transfer of money, property, services, or anything of value to the recipient in order to accomplish a public purpose of support or stimulation authorized by federal statute; and substantial involvement is anticipated between USAID and the recipient during the performance of the proposed activity. Grants are also used when the principal purpose of the relationship is the transfer of money, property, services, or anything of value to the recipient in order to accomplish a public purpose of support or stimulation authorized by federal statute; however, the recipient is to have substantial freedom to pursue its stated program, and substantial involvement is not anticipated between USAID and the recipient during the performance of the proposed activity. According to USAID, PIOs normally receive grants from USAID, not cooperative agreements. USAID’s policy uses “grants” to refer to both grants and cooperative agreements. Accordingly, we use the term “grant” in this report when referring to USAID policy.

grant awards with PIOs.¹⁵ For example, competition is not required for grants with PIOs. USAID also follows a simplified grant format, uses a separate set of pre-award assessment criteria, and generally relies on the PIO's own management for oversight—including internal audit and procurement policies—except when USAID is the sole contributor to the grant award. According to its PIO policy, USAID uses a list of international organizations compiled by State and maintained by the Office of Personnel Management to designate those PIOs that may receive USAID grant funds (see appendix IV for this list). The 124 international organizations on the list are separated into six categories:

- UN organizations.
- Specialized agencies of the UN and related organizations.
- International financial institutions.
- Inter-American organizations.
- Other regional organizations.
- Other international organizations.

According to USAID data, from January 2004 to July 2009, USAID issued approximately \$8.1 billion in grants or cooperative agreements to 50 different PIOs. USAID's data showed that the majority—60 percent—of USAID's grants to PIOs had been awarded to UN organizations and specialized UN agencies.

¹⁵USAID's policy documents are in ADS. ADS 302 is the policy document for issuing contracts, and ADS 303 is the policy document for issuing grants and cooperative agreements to NGOs. In addition, for contracts, USAID applies policies and preaward procedures outlined in the Federal Acquisition Regulations and in the USAID Acquisition Regulations. For grants with NGOs, USAID uses policies outlined in the Office of Management and Budget Circular A-110 and in the Code of Federal Regulations 22 CFR 226.

UNOPS Reforms Are Proceeding, but the Effectiveness of Some Implemented Reforms Has Not Been Assessed

UNOPS Reforms to Its Documentation System, Internal Oversight, and Ethics Are Proceeding

UNOPS has taken actions to implement reforms in areas including its documentation system; internal oversight, including internal audits and investigations; and ethics.

The current UNOPS management team has continued to develop Atlas, its centralized project management system, to address previously identified deficiencies in UNOPS's documentation. In 2007, UNOPS established an internal oversight office, including an internal audit program modeled after Institute for Internal Auditors standards. As part of its effort to address previously identified deficiencies through internal oversight, UNOPS management proposed investigations into allegations of wrongdoing by UNOPS employees. In addition, the management team established an ethics office in 2006 according to UN guidance on the roles of UN ethics offices.

Documentation System

The current UNOPS management team has continued to develop Atlas, its centralized electronic project management system, to address previously identified deficiencies and thereby ensure that its design reduces the risk of fraud, waste, and abuse and strengthens internal and financial controls. Atlas has been in use at UNOPS since 2004 and is designed to systematically consolidate and track project data worldwide, including financial transactions.

Prior to Atlas, UNOPS field offices used the Field Administrative Support Service (FASS). FASS, which is not a common platform, required UNOPS offices to each maintain their own database for tracking projects. Headquarters management did not have real-time capability for tracking project or field office expenditures and, therefore, had limited capacity to identify either poor performance or other problems with grants or contracts. According to a UNOPS official, most countries' data systems before Atlas were unsatisfactory and were not integrated for centralized use or oversight. In addition, FASS provided no systematic way to include electronic documentation for every disbursement made by officials in the

field. Under the new system, project managers enter financial transaction data and Atlas creates and documents vouchers used to make payments. Information is now more readily accessible to management in headquarters and in the field offices.

Internal Oversight

In July 2007 UNOPS management established the Internal Audit Office. Before UNOPS established this office, it had only minimal internal audit capacity. UNDP provided internal audit coverage to UNOPS until the office was established, but its capacity to audit UNOPS was limited. In 2007, for example, the three staff members performing internal audits for UNOPS were only able to complete one of the nine planned audits and management reviews of UNOPS core units and activities before the establishment of UNOPS's office in July.

To address previously identified deficiencies, UNOPS management agreed to fund investigations into allegations of wrongdoing by UNOPS employees. In 2006 and 2007 UNOPS management agreed to pay for the UN Office of Internal Oversight Services (OIOS) to investigate UNOPS activities in Afghanistan, Argentina, and Kenya. In 2007 UNOPS management requested further investigation of misconduct in Afghanistan.¹⁶ One investigation in Kenya and the first phase of the Afghanistan investigation found evidence of alleged criminal activity. In 2009 UNOPS management approved the hiring of its first investigator and, in September, changed the name of the office from the Internal Audit Office to the Internal Audit and Investigations Group to reflect its expanded capacity.

Ethics

In July 2006 the current UNOPS management team established an ethics office modeled upon the UN Secretariat Ethics Office and UN guidance. The UN Secretary-General had made ethics reform a priority in 2005 and established a Secretariat Ethics Office in January 2006.¹⁷ UNOPS appointed its Ethics Officer "to advance United Nations reform and as part of its commitment to the highest standards of ethics, integrity, accountability and transparency." Prior to 2006 UNOPS had neither an ethics office nor

¹⁶UNOPS requested the investigation from OIOS, which referred the case to the Procurement Task Force. The first phase investigated the activities of the Country Coordinator for UNOPS's operations in Afghanistan and Dubai, while the second and third phases were to investigate a UNOPS vendor and other lapses relating to management of funds in Afghanistan.

¹⁷The UN General Assembly document establishing the UN Secretariat Ethics Office, ST/SGB/2005/22, was issued in December 2005, but entered into effect on January 1, 2006.

an ethics officer, thus no one had responsibility to identify and address ethics concerns.

Reforms Have Strengthened Internal Controls, but the Extent of Their Effectiveness Has Not Been Assessed

Project Tracking System Has Improved Documentation of Projects, but Weaknesses Remain

While changes to UNOPS's project tracking system, Atlas, have improved documentation of projects at UNOPS, the effectiveness of these improvements is limited by the lack of systematic data reliability assessments and other system implementation inadequacies. Atlas has improved the internal controls environment at UNOPS in three primary ways:

- Atlas allows UNOPS management real-time global access to system data.¹⁸ According to UNOPS officials, this improves management's capacity to oversee worldwide operations and track progress toward project completion by country office or region. As a result, managers have the opportunity to identify and correct problems, such as poor performance or fraud, much more quickly than they could under FASS.
- Atlas requires some data to be entered for each project, allowing managers the ability to more systematically measure, track, and compare performance by project or office. For example, financial data and procurements for each project must be systematically entered into Atlas. In addition, the system requires documentation of every purchase order and allows each one to be checked, either in the field or from headquarters, against the project's budget and cash balance. UNOPS officials said that these additional requirements have made Atlas more effective at tracking UNOPS's assets than FASS.
- Atlas incorporates some functions that may reduce the risk of fraud. For example, within months after he was appointed, the Executive Director

¹⁸For example, a "financial dashboard"—a tool on Atlas that summarizes organization and project finances—makes Atlas more accessible to UNOPS managers by allowing them a quick view of budget, project expenditure, project income, and administrative expenditure data. Staff do not have unlimited access to global project data and other data in Atlas. UNOPS management assign each staff member a level of access on a case-by-base basis.

stated plans to require UNOPS field offices to document imprest¹⁹ account transactions in Atlas, because such transactions present a particularly high risk of fraud. Until they implemented this requirement, headquarters gave offices cash advances in imprest accounts and replenished the accounts monthly with only limited documentation of how offices spent the money.²⁰ In September 2009, the officials reported that all offices were tracking imprest transactions in Atlas. Atlas also reduces vulnerability to fraud by using an electronic signature to verify that more than one person has been involved in every transaction as a management oversight measure.

We found that three major weaknesses may limit Atlas's potential to address some of UNOPS's previously identified internal and financial control problems.

- **The timeliness, accuracy, and completeness of data in Atlas are limited, and UNOPS does not systematically assess the reliability of data in Atlas.** Based on our survey of UNOPS's field offices, more than a third of the offices reported that the timeliness, accuracy, and completeness of data in Atlas were limited (see appendix V for more complete results of our survey). The UNOPS Director of internal oversight also told us in December 2008 that the accuracy and completeness of data entry remain a concern. However, UNOPS management does not know the extent to which data reliability is a problem because UNOPS has not sought any systematic check on data accuracy. While UNOPS officials periodically run reports to see if information is consistent, these reports are run on an ad-hoc basis, particularly when issues arise on a particular project or office. UNOPS officials said there have not been any UNOPS management reports on frequency or types of errors discovered in reviewing data entered into Atlas.

¹⁹"Imprest" refers to a use of cash for business transactions. Generally, the purpose of an imprest fund is to make small payments when the ordering of checks is not practical and where the interests of the U.S. government are best served by making payments in cash. Business in Afghanistan required large imprest accounts, because Afghanistan lacked the established banking system that is necessary for making noncash payments.

²⁰Although it took about 3 years to implement the requirement in all field offices because of the extensive effort required to reconcile the accounts, the Executive Director said he required the documentation of all imprest transactions in Atlas in Afghanistan first, because of the extensive use of an imprest account there and because of his concerns about financial mismanagement and fraud.

-
- **The Atlas system can be difficult to use and frequent turnover presents a training challenge.** Managers from all of the UNOPS field offices we surveyed identified some conditions that made Atlas difficult to use (see appendix V). For example, according to 15 of the 17 field managers who responded to our survey, Atlas produced reports that did not meet the needs of their offices, which made the system at least “somewhat difficult” to use. In addition, more than half of the respondents indicated that the system was slow, data entry took too long, system connectivity or access was poor, and the system contained technical glitches.²¹ A UNOPS official we interviewed told us that one of Atlas’s technical glitches was its failure to release funds when expenses are re-evaluated. Another UNOPS official also said that UNOPS faces continued financial risk because it had not integrated all the necessary management controls. For example, UN WebBuy—the online procurement tool used by UNOPS—is not linked to Atlas, so there is no function for electronic approval of contract award ceilings, which leaves the organization vulnerable to possible price manipulation. Furthermore, while UNOPS’s Chief Information Officer told us UNOPS has offered nine training sessions on using Atlas in 2009 as of October, UNOPS officials said frequent turnover of staff at UNOPS presents a continuing training challenge. One official said there was a need to make the training more tailor-made for shorter-term employees and offer introduction training at more frequent intervals.
 - **Several recommendations relating to Atlas from UNOPS internal oversight office have not been fully implemented.** Several of the unresolved high priority audit recommendations from UNOPS’s 2007 and 2008 internal audits relate to deficiencies in the Atlas system. For example, the Director of internal oversight at UNOPS reported to the UNOPS Executive Board in 2009 that there is a need to (1) reconcile Atlas records and bank statements for all ongoing projects, (2) issue a guideline on budget overrides and a control mechanism to mitigate the risk of nonauthorized expenditures, and (3) expedite the review and application of the new version of Atlas where all operational technical concerns are solved.

²¹Between 9 and 11 of the offices we surveyed responded that each of these conditions made Atlas at least “somewhat difficult” to use.

Internal Audits at UNOPS
Generally Comply with
International Standards, but
Phases of a Remaining
Investigation of Alleged
Wrongdoing Have Not Begun

UNOPS Has Established More Systematic Internal Audits

As of August 2009, we found that UNOPS's internal audit function generally complies with key Institute of Internal Auditors (IIA) standards, as discussed in table 3.²²

Table 3: UNOPS's Efforts to Comply With Key International Internal Audit Standards

Risk-based planning (IIA standards 2010 and 2110)

Annual risk-based work plans informed by entity's risk-management framework

- In 2007, UNOPS hired a Director of internal oversight—then called the Head of the Internal Audit Office—who has developed a risk-based audit plan. UNOPS complied with the IIA standards for risk-based planning by completing a risk-based audit plan for 2009 and 2010.

Resource management—Audit (IIA standard 2030)

Sufficient resources to achieve audit work plans

- UNOPS's Director of internal oversight and UNOPS management maintain that the organization has sufficient resources to achieve its audit work plans, which is consistent with the IIA standard for resource management. UNOPS internal oversight staff allocations rose from 3 employees when UNDP performed UNOPS's internal audits in 2007 to 10 in the fall of 2009, according to UNOPS's Director of internal oversight, and UNOPS has almost tripled the office's budget from about \$620 thousand in 2006 to nearly \$1.6 million in 2009. He also said, that based on the size of UNOPS, the staffing levels of its oversight office fall within the average range, according to an annual benchmark conducted for the international network of auditors within international organizations. The UNOPS Executive Board's decision at its June 2009 session welcomed "the progress made to increase the internal audit capacity of the organization" and "the increased internal audit coverage in 2008."

Quality assurance (IIA standard 1312)

External assessment (every 5 years)

- In accordance with an IIA standard on quality assurance, UNOPS's oversight office successfully underwent an external review in August 2009 by the former Director of Internal Oversight Services at UNESCO and Inspector General of the European Investment Bank, who is accredited with the IIA.

Recommendation tracking (IIA standards 2500 and 2500.A1)

System in place to monitor recommendations

Process for following up on implementation status

- UNOPS has complied with the IIA standards on recommendation tracking. UNOPS's Director of internal oversight submitted a list of high priority audit recommendations from the oversight office and a list of audit recommendations unresolved for 18 months or more to the Executive Board, along with UNOPS's 2009 annual report on the internal oversight office's activities.

Source: GAO analysis of UNOPS data.

²²Generally compliant means that there is evidence of a series of actions that indicate the organization has generally complied with the standard.

Sufficiency of Resources for UNOPS Investigations Is Unclear Because Remaining Phases of an Investigation Have Not Begun

While UNOPS management has committed resources to investigations, the sufficiency of UNOPS's resources for investigations is unclear because two phases of the investigation of its operations in Afghanistan have not yet begun. Although UN Uniform Guidelines for Investigations require management to ensure sufficient resources for investigations, the remaining phases of the investigation have not begun because negotiations between UNOPS and the OIOS over the investigation's cost and scope have been slow.²³ In 2007, when UNOPS management proposed the first phase of the investigation, UNOPS had no investigative capacity of its own and, thus, had to request and pay other investigators for their services.²⁴ UNOPS management told us they selected OIOS because it is commonly viewed as the principal investigative authority for UN organizations. UNOPS management officials also said that selecting OIOS over other alternatives would be less likely to be seen as inappropriately influencing the investigations. However, as we reported previously, OIOS is not fully independent in investigating matters for UN funds and programs (and other UN entities), such as UNOPS. OIOS must negotiate the terms of work and payment for any investigations it conducts for UN funds, programs, and other UN entities.²⁵ OIOS sent UNOPS a proposal for the second phase of the investigation about 5 months after the case was transferred to the OIOS Investigations Division from the Procurement Task Force (PTF),²⁶ and UNOPS and OIOS management said negotiations were still ongoing because of disagreements over the proposed scope and cost of work. UNOPS management officials told us they found OIOS's proposed cost too high and the proposed scope too narrow. State officials and a former PTF investigator said they are concerned that OIOS is not

²³According to UNOPS officials, many of the investigators that OIOS had hired from the Procurement Task Force (PTF) for phase one of the investigation have left OIOS, resulting in a loss of institutional memory regarding the work performed by the PTF.

²⁴UNOPS management proposed in 2006 that UNDP investigate UNOPS's activities in Afghanistan, but decided to use OIOS's services in 2007 after UNDP's investigation was challenged by the subject of the investigation.

²⁵OIOS's lack of financial independence means that high-risk areas could be excluded from adequate examination. See GAO, *United Nations: Funding Arrangements Impede Independence of Internal Auditors*, [GAO-06-575](#) (Washington, D.C.: April 2006).

²⁶The PTF disbanded in December 2008. OIOS officials told us that their decisions on whether and how to investigate the PTF cases took several months after they were transferred to OIOS's Investigations Division.

committed to pursuing the UNOPS investigations. However, OIOS officials said they were concerned about UNOPS's willingness to pay, because UNOPS contested the cost of the first investigation of Afghanistan after it was completed by the PTF. Therefore, OIOS officials said they would not agree to the investigation until UNOPS had confirmed a payment schedule. As a result, the remaining phases of the investigation have not begun about 3 years after the activities in Afghanistan that are the proposed subject of the investigation occurred.²⁷ According to investigators who worked on the first phase of the Afghanistan investigation, lengthy delays increase the chance that documentation of the activities to be investigated may be lost or destroyed, thus hindering any eventual investigation and ultimately, accountability. Because arrangements for the investigation of UNOPS are not finalized, it is unclear whether UNOPS has met the UN Investigative Guideline requiring the organization to provide sufficient resources to perform investigations.

In an effort to develop its own internal investigative capacity, UNOPS announced the opening of a position to hire a full-time investigator in August 2009, which has not been filled as of October 2009. UNOPS management officials told us they would consider contracting with additional investigators as needed.

UNOPS Ethics Office Has Met Most UN Requirements but Its Effectiveness Has Not Been Assessed

While we found that UNOPS's Ethics Office generally complies with most of the key requirements for UN ethics offices of organizations outside the UN Secretariat as outlined in a 2007 UN Secretary-General's bulletin, it has not met the requirement of annual reporting and has not fully met its own requirement for ethics training (see table 4). Furthermore, assessments of the effectiveness of UNOPS's Ethics Office have not been conducted.

²⁷The PTF proposed the remaining phases of the Afghanistan investigation in its report on the first phase of the investigation in December 2008.

Table 4: UNOPS’s Efforts to Comply with Key UN Ethics Requirements, as of October 2009

UN ethics requirement	Efforts to comply with requirement	Compliance status
Develops ethics standards	UNOPS has adopted ethics standards consistent with those of the UN Secretariat Ethics Office and conforms to the positions of that office. In addition, UNOPS employees are subject to the basic rights and duties of UN staff outlined in the 2002 UN Secretary-General’s bulletin. ^a	Generally compliant ^b
Holds annual training on ethics issues	In January 2009 UNOPS management stated that UNOPS had redesigned and modernized its online course on ethics—developed by the United Nations Office on Drugs and Crime and used by the UN Secretariat—and required all UNOPS personnel to complete it by the end of March 2009.	According to the UNOPS Ethics Officer, UNOPS’s ethics training is one-time training, not annual as required. Although the training is required for all UNOPS personnel, UNOPS officials told us they have targeted between 800 and 1,000 of their approximately 2,000 personnel to complete the online training. They said that several hundred personnel cannot be expected to complete the training, because, for example, many personnel in the field are illiterate and many UNOPS contractors are only subject to the rules of the agencies for whom they are performing UNOPS contract work. As of October 2009 only 600 of the 800 to 1,000 personnel expected to complete the training had saved a copy of the completion certificate online. Technical issues prevented the Ethics Officer from seeing directly who had taken the course, and thus the Ethics Officer cannot know if more than 600 UNOPS staff have completed the training. According to UNOPS management, UNOPS’s policy requiring all personnel to complete ethics training exceeds the minimum UN-wide requirement.
Provides confidential advice and guidance to staff on ethical issues	The UNOPS Ethics Officer said he has provided confidential guidance on ethical issues to “a few” UNOPS employees, but that UNOPS does not have a record of the number of staff who have sought counsel on ethical issues.	Generally compliant
Plays a role in the protection of staff against retaliation (whistleblower protection policy)	The UNOPS Ethics Office has mechanisms in place for staff to report fraud or seek protection from retaliation. UNOPS has established an anonymous hotline to report possible fraudulent or corrupt activity. In addition, submissions can be sent to fraudhotline@unops.org . UNOPS has adopted a whistleblower protection policy that formalizes protective measures for UN staff members, interns, and volunteers who have experienced retaliation for reporting misconduct in their working environment or for cooperating with a duly authorized audit or investigation, in accordance with a UN Secretary-General’s bulletin from 2005.	Generally compliant

UN ethics requirement	Efforts to comply with requirement	Compliance status
Administers the organization's financial disclosure program	<p>UNOPS has implemented a process for submission and review of financial disclosures and has taken steps to ensure compliance with its requirement. According to UNOPS's 2008 policy on financial disclosure, many UNOPS personnel have an obligation to file either an annual financial declaration or a financial disclosure statement, including senior level personnel, all UNOPS personnel who are procurement specialists or whose principal duties are the procurement of goods and services, all operations center directors and managers, all project managers, UNOPS internal auditors, and the UNOPS Focal Point for Financial Disclosure.</p> <p>Management has taken appropriate actions to address incidents of noncompliance with the financial disclosure policy. For example, according to UNOPS management, when six staff did not meet the requirement by the May 31, 2008 deadline, they were sent notices that they would be terminated if they did not comply. As a result, four of them eventually complied and two chose to leave UNOPS. As of September 2009, UNOPS management was unaware of any outstanding cases. An official said management was waiting for an independent contractor to complete required random checks of 2009 financial disclosures.</p>	Generally compliant
Prepares an annual report of ethics-related activities	UNOPS's Executive Director included a brief summary of ethics-related activities in UNOPS's 2008 annual report to the Executive Board.	The UNOPS Ethics Officer did not prepare an annual report of the office's activities in 2007 or 2008. The Ethics Officer told us that because the Ethics Office became independent in January 2009, he will complete the office's first formal annual report of ethics-related activities for activities in 2009.
Participates as a member of the UN Ethics Committee, which is chaired by the head of the UN Secretariat's Ethics Office	The head of the UN Secretariat's Ethics Office, who chairs the UN Ethics Committee, told us that UNOPS's Ethics Officer participates regularly in committee meetings and that he is one of the major contributors. The committee reviews annual ethics reports of the committee members' organizations and has drafted a UN-wide Code of Ethics, which was approved by the UN Secretary-General and is awaiting approval by member states in the UN General Assembly.	Generally compliant

Source: GAO analysis of UNOPS data.

^aThe purpose of the bulletin is to ensure that all UN staff are aware of the "standards of conduct for the international civil service" adopted in 2001. The bulletin is also based on the Charter of the United Nations, which establishes the universal standard for all staff members employed by the UN as the "highest standards of efficiency, competence and integrity."

^bEvidence of a series of actions that indicate the organization has generally complied with the guideline.

The effectiveness of the UNOPS Ethics Office remains unclear because the office's activities have not been assessed. The UNOPS Director of internal oversight and the Ethics Officer told us that there have been no audits or assessments of UNOPS's Ethics Office. Although the Ethics Office was established in 2006, they said it is too early to assess its effectiveness because the office has only been independent since February 2009.²⁸ By contrast, the UN Secretariat Ethics Office, which was also established in 2006, has been audited or assessed by three entities in the last year.²⁹

UNOPS's Executive Board Lacks Full Access to Internal Audit Reports that Could Provide Greater Insights into UNOPS's Operations

While UNOPS's Executive Board receives information from various sources about the effectiveness of UNOPS's financial and programmatic operations, the board members—including the United States—do not have full access to internal audit reports, which could increase transparency and provide further insight into UNOPS's operations.³⁰ As a member of the Executive Board, the United States works with other member states represented on the Board to ensure oversight and accountability of UNOPS's resources. Currently, the Executive Board receives information on UNOPS's operations from the BOA's external audit reports on the organization's financial statements and the UNOPS internal oversight office's annual report summarizing the office's findings and activities. For example, in 2009, UNOPS's internal oversight office provided the Executive Board with the annual report for its first full year of operation. While these existing information sources help the Executive Board exercise its oversight responsibilities, access to UNOPS's internal audit reports is limited. In September 2008, at its annual meetings, UNOPS's Executive Board approved a policy that granted member states limited access to internal audit reports completed after their decision entered into effect. Member states are not given copies of the reports, but are able to read them at the UNOPS internal oversight office after officially requesting access. However, the United States and other member states may still be denied access to any UNOPS internal audit reports that were completed before September 2008, covering the time frame when the negative

²⁸The current UNOPS Ethics Officer formerly served simultaneously as the UNOPS Ethics Officer and the UNOPS General Counsel.

²⁹The UN Secretariat Ethics Officer said audits or assessments of the UN Secretariat Ethics Office have been conducted by the Independent Audit Advisory Committee, the UN Joint Inspection Unit, and the BOA.

³⁰The Executive Board is UNOPS's governing body and, among other duties, approves UNOPS's budget and recommends improvements.

findings were identified. By contrast, since December 2004, OIOS has provided members with full access to internal audit reports upon request.

USAID Has Not Consistently Implemented Its Oversight Policies When Making Grant Awards with UNOPS and Has Been Vulnerable to Program Fraud and Abuse

While USAID's general policies for making grants with PIOs require USAID to evaluate grantees and to include provisions in some cases under which the grantee agrees to give USAID access to oversight information, USAID has not consistently implemented these policies when making grant awards with UNOPS. From 2004 through 2008, USAID did not meet its criteria for assessing UNOPS's eligibility as a grantee before awarding each grant. Furthermore, in those assessments it did perform, USAID did not acknowledge adverse findings from a series of UN investigations and public UN audit reports. In addition, in the majority of these awards USAID did not negotiate to include a provision where UNOPS would agree to allow USAID access to UNOPS's expenditure records and documents. We found that some of these omissions can be attributed to USAID's lack of clear guidance, training, and monitoring of its required audit provisions. USAID's failure to adhere to its policies limited its oversight of grants that were subsequently associated with alleged findings of criminal actions and mismanaged funds.

USAID's Policies Require USAID to Evaluate Grantees Before Making an Award and to Include Provisions Allowing Access to Oversight Information When Applicable

USAID has policies that require it to evaluate PIOs before making an award and to include provisions to obtain access to information needed to oversee grant expenditures when USAID is the sole contributor to the award. According to the Domestic Working Group on Grant Accountability—a collection of federal, state, and local audit organizations tasked by the U.S. Comptroller General to suggest ways to improve grant accountability—pre-award assessments can provide the government with confidence that the grantee has the required financial systems to allow sufficient oversight. These assessments should ensure that an applicant has adequate financial systems and they should enable government agencies to decide whether to award the grant and if oversight conditions should be added.³¹ For grants with NGOs, USAID uses criteria for assessing grantees outlined by the Office of Management and Budget's (OMB) Circular A-110. According to the Circular, these criteria can also apply to PIOs. In addition, USAID requires that the missions perform pre-award assessments, as well as additional assessments whenever a

³¹Domestic Working Group Grant Accountability Project, *Guide to Opportunities for Improving Grant Accountability* (Washington, D.C., October 2005).

modification significantly increases the amount of the original grant. The assessments are to ensure that (1) the grantee's program is an effective and efficient way to achieve a USAID objective, (2) the grantee's program and objectives are compatible with USAID, (3) there are no reasons to consider the grantee not responsible, and (4) the grant is made for a specific program of interest to USAID.

In addition, under USAID policies, the application of certain audit provisions with PIOs depends on its contribution to the award relative to other donors—whether USAID is the sole or largest contributor. According to a 1988 USAID policy, when USAID is the sole contributor in a grant to a PIO, USAID shall include a provision in the grant requiring that the grantee provide all records and documents that support program expenditures to USAID or to the U.S. Comptroller General.³² USAID policy further states that if USAID is the largest contributor to a project it can, with the concurrence of State, seek to negotiate to apply increased audit authority to protect U.S. interests. Moreover, according to policy, when USAID is not the sole contributor to a UN award, USAID can apply the UN grant provision and the grant will be audited with established UN procedures.³³ Appendix VI contains these USAID policies.

USAID's Process for Awarding Grants to UNOPS Did Not Include Required Steps for Evaluating the Responsibility of Grantees or Include Findings from Multiple UN Reports

³²USAID updated this policy in 2003 with minor wording changes that did not change the substance of the requirement. A USAID official said the revisions in the 2003 provisions were to update the provision with plain English, i.e., to delete the word "shall" and replace it with "is required to."

³³While the grantee is not required to provide USAID access to its documents, under the UN grant provision, the grantee agrees to give the U.S. government a final report, including accounting for grant funds in sufficient detail to enable USAID to liquidate the grant.

USAID Did Not Consistently Assess UNOPS's Responsibility as a Grantee

During the years that the UN issued negative findings on UNOPS, USAID did not consistently perform pre-award assessments to justify selecting UNOPS as a responsible grantee. While USAID could apply the OMB Circular A-110 to perform eligibility assessments as it does for NGOs, it does not use this guidance to perform similar assessments for PIOs.³⁴ According to USAID officials, USAID does not perform the same type of assessments that it performs for other grantees or contractors, although one USAID official said that addressing this lack of assessment is currently one of their top priorities.³⁵ To the extent that USAID does perform assessments of PIOs, the assessments occur at the mission level before the grant is awarded and whenever a modification significantly increases the amount of the original grant. The assessments are to be recorded in memos and documented with the grant award. According to USAID Office of Acquisition and Assistance (OAA) officials, this requirement is the only policy that requires eligibility screening activities of PIOs.

However, USAID missions did not have official documentation of pre-award assessments for more than half of its grants with UNOPS in the last 5 years or for the majority of modifications that increased grant budgets. USAID could not provide official documentation of assessments for 7 of the 11 grants it made to UNOPS from 2004 through 2008 (see app. VII).³⁶

USAID also lacked assessment documentation for the majority of modifications to UNOPS grant programs that increased the budget of the grant award. According to USAID OAA officials, procurement staff should document assessment criteria in a memo whenever a modification increases the budget or introduces new work to the program. However, USAID did not have records of assessments for 11 out of 14 modifications

³⁴For example, USAID uses criteria listed in the OMB Circular A-110 for special award conditions, including performance history, financial stability, and management systems. In addition to the criteria listed in the Circular A-110 for grants with NGOs, USAID also conducts pre-award surveys to ensure compliance with federal financial, procurement, personnel, and management system standards.

³⁵For example, in October 2009 USAID sent a team of professionals to UNOPS headquarters at the invitation of UNOPS management. USAID officials told us they planned to assess how USAID could develop a standard operating procedure to apply assessment criteria to PIOs.

³⁶Two of the memos USAID provided were unofficial documents. The pre-award memos for both the Afghanistan Rehabilitation of Secondary Roads grant and the Women's Dormitory grant were unsigned, undated documents that restated the award criteria without providing an assessment.

that increased UNOPS's grant budgets from 2004 through 2008. We previously reported that documentation is necessary to ensure that third parties can fully understand and review the actions that have occurred during the project period.³⁷ For example, until 2006, the Afghanistan Mission had no documented assessments for modifications to the largest USAID-funded UNOPS project in Afghanistan—Rehabilitation of Secondary Roads—even though these modifications increased the scope and budget of the program by more than ten times its original amount. In 2006 the Afghanistan Deputy Mission Director reported in an official memo that there was no information in the grant files justifying these modifications and thus he had to rely on limited information, including anecdotal inputs, to justify additional increases to the program.

USAID OAA officials acknowledged that some of the memos documenting pre-award assessments from 2004 through 2008 could be missing. USAID officials told us that finding these memos from field offices was a difficult task, because the memos may be stored in the field and are not available from a centralized location. In addition, one USAID official said that institutional knowledge of grants is difficult to maintain at hardship posts where staff generally have only 1-year rotations.

USAID Did Not Acknowledge Information from UN Audits and Investigations of UNOPS while Continuing to Award Grants to UNOPS

None of USAID's four official pre-award assessments of UNOPS from 2004 through 2008 acknowledged adverse findings from publicly available UN audits and investigations.³⁸ As we noted earlier in this report, from 2002 through 2008, OIOS, the BOA, the UNDP Office of Audit and Performance Review, and the UNOPS Internal Audit Office all issued negative findings on UNOPS's internal controls, financial monitoring, and lack of transparency. Furthermore, in 2004 and 2007, the BOA was unable to make a judgment about UNOPS's financial statements due to UNOPS's lack of sound financial controls and its unreliable financial accounting data. In 2008, the BOA expressed an unqualified audit opinion of UNOPS's financial statements, although the report also expressed the need for improvements in financial controls, asset management, and project

³⁷GAO, *Grants Management: EPA Has Made Progress in Grant Reforms but Needs to Address Weaknesses in Implementation and Accountability*. GAO-06-625 (Washington, D.C.: May 12, 2006).

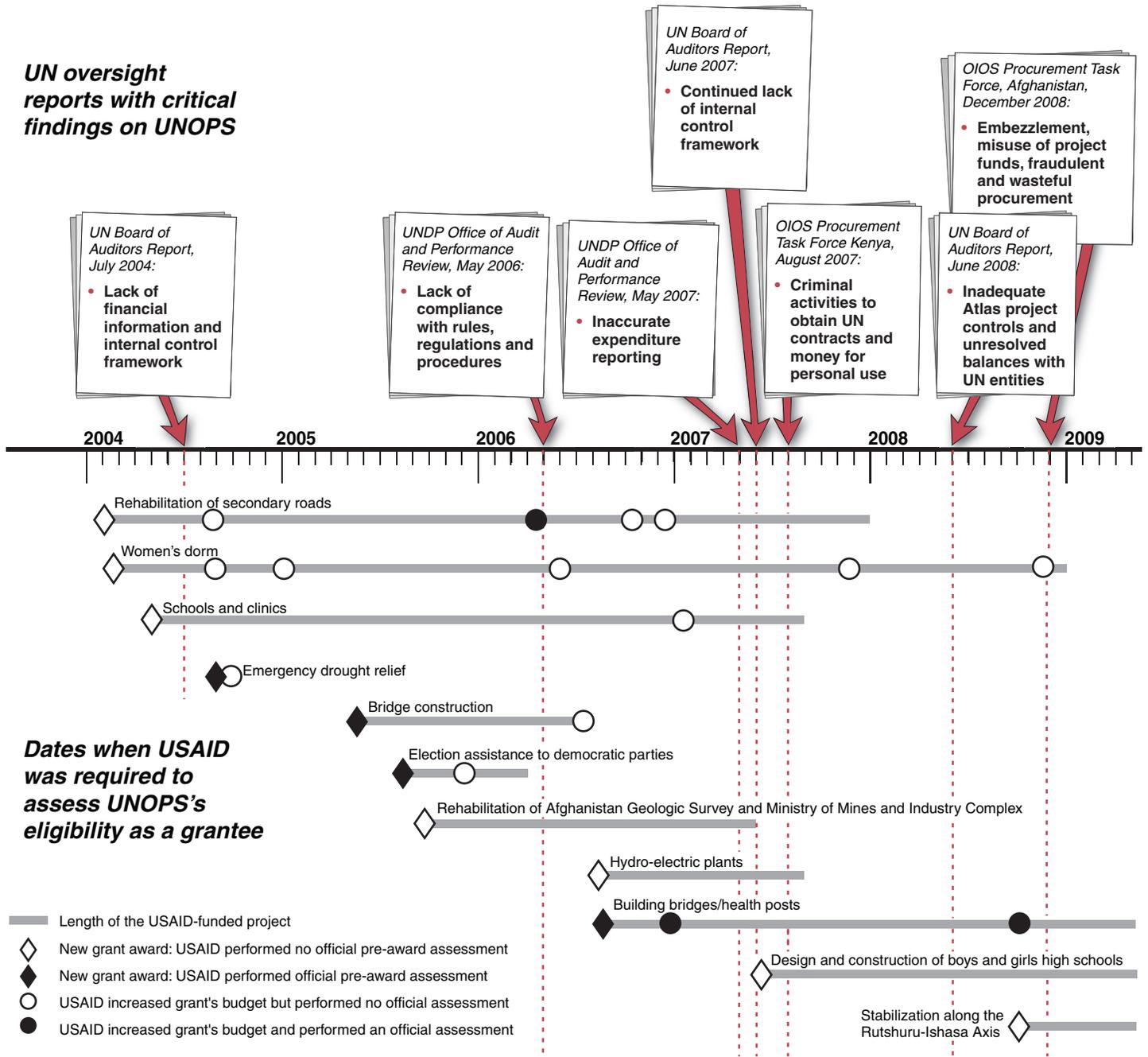
³⁸The four BOA reports issued from 2002 through 2008 are publicly available on the BOA Web site: <http://www.un.org/auditors/board/reports.shtml>. The two UNDP Office of Audit and Performance Review reports issued during this time are publicly available on the UNDP Executive Board Web site: <http://www.undp.org/execbrd/>. The OIOS Procurement Task Force reports are available through the U.S. Mission to the United Nations.

monitoring. However, USAID headquarters officials said they did not have knowledge of UN findings from the 2004 BOA report and several Mission officials had no knowledge of any UN findings, despite criticisms of UNOPS management by State. From 2004 through 2008, USAID awarded 11 grants with multiple modifications that increased the grant budgets, all of which were required instances for USAID to reassess UNOPS as a responsible grantee.³⁹ During this time USAID obligated \$478.3 million to UNOPS.⁴⁰ Figure 1 juxtaposes the timing of USAID's grant awards and modifications with the issuance dates of these UN reports.

³⁹In addition, USAID made more than 30 administrative modifications to UNOPS grants. At the time of each of these modifications, USAID could have assessed UNOPS but was not required to do so.

⁴⁰USAID reported their data according to funds obligated to UNOPS, not funds expended by UNOPS.

Figure 1: Timing of USAID Grant Awards and Issuance Dates of UN Oversight Reports, 2004 through 2008



USAID Grants Have Lacked Certain Required Audit Provisions and Were Associated With Findings of Criminal Actions and Mismanaged Funds

USAID Did Not Consistently Include Audit Provisions Allowing Direct Access to UNOPS Grant Expenditure Documentation

USAID did not consistently include the audit provision that would have allowed it access to documentation of how UNOPS spent funds from grants awarded to UNOPS during the last 5 years. Under USAID policy, for awards where USAID was the sole contributor, the audit provision was required. Where USAID was not the sole contributor, the inclusion of the audit provision was not required, but USAID could have negotiated for its inclusion. USAID only included the sole contributor audit provision in 2 of its 11 awards. (See table 5.)

For five of the awards, neither UNOPS nor USAID recorded additional contributors to the award—making USAID unequivocally the sole contributor—but USAID failed to include the sole contributor audit provision in those awards. USAID mission officials said there was no explanation in USAID’s documentation to indicate why contracting officials did not apply the sole contributor audit provision when USAID was the sole contributor. In addition, for four of the awards, USAID had the discretion to negotiate for the same provision and did not exercise such discretion.

Table 5: Audit Provisions USAID Used in Its Awards with UNOPS, 2004 through 2008

Award date	Location	USAID contribution to grant award	Other contributors documented in grant	Audit provision ^a
February 2004	Afghanistan	Sole contributor	None	UN grants
February 2004	Afghanistan	Sole contributor	None	UN grants
May 2004	Afghanistan	Sole contributor	None	UN grants
September 2004	Afghanistan	Sole contributor	None	UN grants
August 2006	Sudan	Sole contributor	None ^b	UN grants
May 2005	Liberia	Largest contributor	UNOPS in-kind contribution	UN grants
August 2005	Haiti	Largest contributor	UNOPS in-kind contribution	UN grants
September 2005	Afghanistan	Largest contributor	UNOPS in-kind contribution	UN grants
September 2008	Democratic Republic of the Congo	Largest contributor	Nonfederal contribution ^c	UN grants
July 2006	Haiti	Sole contributor	None	Sole contributor
June 2007	Afghanistan	Sole contributor	None	Sole contributor

Source: GAO analysis of UNOPS and USAID data.

^aWhen USAID uses the UN grants audit provision, it relinquishes its access to grantee expenditure documentation. When USAID uses the sole contributor audit provision, it can require access to grantee expenditure documentation.

^bAccording to a USAID official at the Sudan Mission, there was an indication in the grant file that UNOPS provided cost sharing by supplying staff and other services, but the official could not find this documented in the grant budget.

^cUSAID did not have records describing the “nonfederal contribution” documented in the budget section of its grant award. UNOPS officials said that additional contributions could have been made as in-kind contributions by UNOPS, which would not be recorded as transactions in UNOPS records.

According to UNOPS data, USAID has been the only outside contributor to all 11 of its grants with UNOPS during the last 5 years, but these data did not include any in-kind contributions made to the award.⁴¹ In at least three awards, UNOPS made small, in-kind contributions to the award—for example, they provided staff to perform landscaping services and administrative support. USAID also listed a nonfederal donor contributing to another award. UNOPS senior officials said they were unaware of the contributions UNOPS made to the three USAID grants. They said that these contributions were “strange” because UNOPS’s mandate is to

⁴¹According to a senior UNOPS official, USAID was the sole contributor to these projects because there were no other donors listed in their general ledger for transactions made in each of the projects.

provide implementation services, not to be a donor. They told us that these in-kind contributions might have been made to avoid USAID's regulations.

Consistent with these statements, USAID gave us a 2005 e-mail exchange where a UNOPS official asked that the proposed grant use a UN provision as an alternative to the sole contributor provision.⁴² When asked, the USAID contracting officer in charge of the grant mentioned what actions could be taken in order for the sole contributor audit authority not to be required, such as contributions to the grants from another entity. As a result, UNOPS then contributed to the grant's budget, and USAID did not include the sole contributor audit provision within the grant award.

USAID policy does not define sole contributor for the purposes of grants to PIOs. As a result we were unable to determine whether the four remaining awards would be considered sole contributor awards requiring, unless waived, the inclusion of the sole contributor audit provision. Nevertheless, as the largest contributor, USAID could have elected to negotiate for the application of selected procurement and audit policies with UNOPS to protect U.S. interests. USAID applied the UN grants provision to these four awards.

USAID Lacks Clear Guidance, Training, and Monitoring of Its Required Audit Provisions with UNOPS and Other PIOs

USAID has not provided clear guidance to ensure its audit provisions are correctly implemented. We found that contracting officers have not been consistent in their use of the sole contributor audit provision because there is no clear definition of what constitutes a sole contributor in USAID policy. USAID OAA officials said this lack of definitional clarity might weaken contracting officers' abilities to include the provision when negotiating to include audit access with UN officials. For example, USAID has not defined the amount of contribution, the type of contribution, or the type of contributor necessary to establish USAID as the sole contributor. In addition, USAID provides no guidance to ensure that the contracting officers drafting the grant award know whether USAID is the sole contributor to the grant, because contracting officers do not participate in country donor meetings. USAID officials acknowledged that the absence of definitions and the absence of clear guidance for

⁴²The UNOPS official asked that the UNOPS rules and regulations for procurement be applied to the grant. These rules and regulations apply when the UN grants audit provision is used.

implementing the sole contributor audit authority have been weaknesses in their PIO policies.

USAID has also not provided contracting officers with specific training on how to apply the provisions in its grants with PIOs. For example, contracting officers at three missions that awarded grants to UNOPS said they received no training on awarding grants to PIOs, and the most recent assistance management workbook for contracting officers did not include any guidance on when to use the different PIO audit provisions.⁴³

Finally, USAID does not monitor whether the PIO audit provisions are implemented as required, in part because it has not developed or documented an approach to such monitoring. According to internal control standards for the federal government, management should provide ongoing monitoring of grant implementation performance.⁴⁴ However, USAID OAA officials were not aware that in five of the seven grants with UNOPS for which USAID was unequivocally the sole contributor, the contracting officers had used the incorrect audit provision, in part because they had not monitored the provisions in these awards. While USAID's Mission Compliance Checklist includes monitoring criteria to confirm other provisions specific to PIOs, it does not include a requirement to monitor whether the mission used the appropriate audit provision.⁴⁵ USAID officials acknowledged that monitoring appropriate oversight provisions may not be a standard part of their monitoring protocol. According to USAID officials, missions do not document how and when the sole contributor audit provision is used in grant awards. The missions never check to determine if the provisions are correctly implemented, and the contracting officer's choice of audit provision in the original grant award is not reviewed unless there are major changes to the award's financial contributors. Furthermore, while USAID's policy indicates that the sole contributor audit provision can be waived, the policy does not

⁴³The 2007 *USAID Program Project Management Training Workbook* has one page of information on PIO Grants that does not include guidance on applying audit provisions to PIO grant awards. The workbook also does not include guidance on performing pre-award assessments of PIOs.

⁴⁴GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

⁴⁵USAID's Mission Compliance Checklist includes a requirement to confirm that a PIO award includes the appropriate provision implementing E.O. 13224 *Executive Order on Terrorism Financing* from ADS 308 (UN and non-UN organizations).

USAID's Failure to Adhere to its Policies Severely Limited Its Access to Information about UNOPS Grants Associated with Findings of Alleged Criminal Actions and Mismanaged Funds

include criteria for requesting a waiver. USAID OAA officials said they have never seen a request to deviate from the sole contributor provision.

USAID's failure to adhere to its policies severely limited its ability to require expenditure documentation from grants that were associated with findings of alleged criminal actions and mismanaged funds. From 2004 through 2008 USAID obligated \$450 million in awards to UNOPS that did not include the sole contributor audit provision to provide access to UNOPS's expenditure documents.⁴⁶ In 2008, the PTF found instances of fraud, embezzlement, conversion of public funds, conflict of interest, and severe mismanagement of USAID-funded UNOPS projects in Afghanistan, including the \$365.8 million Rehabilitation of Secondary Roads project. According to the allegations in the investigation, a UNOPS official diverted reconstruction funds for personal use, including hundreds of thousands of dollars in USAID funds for rent, a home renovation, and other luxury items. In addition, the investigation found that the UNOPS official repeatedly violated rules and regulations by severely misappropriating project funds and by engaging in fraudulent and unlawful acts.⁴⁷ The USAID Office of Inspector General also reported in 2008 that UNOPS did not complete projects as claimed and that projects had defects and warranty issues, as well as numerous design errors, neglected repairs, and uninstalled equipment and materials—all of which were billed as complete. UNOPS was also missing key documentation for expenditures and bills of quantity.

USAID had limited access to expenditure records and documents during these grant awards and during subsequent investigations because it did not include the sole contributor provision in its awards with UNOPS.⁴⁸ As a result, USAID officials have not been able to require UNOPS to provide information to substantiate how it spent U.S. grant funds. USAID officials said that certain UNOPS officials were unwilling to furnish requested documents during the grant, and UNOPS would not respond to requests

⁴⁶USAID provided obligation data, not expenditure data for its grants made with UNOPS.

⁴⁷As of September 2009 UNOPS officials reported that the New York District Attorney's Office had requested the cooperation of the UN and wrote to the UN Office of Legal Affairs asking for all documents relating to the case. The officials said the office plans to transmit the files to the District Attorney so the case can be pursued.

⁴⁸USAID did include the sole contributor audit provision in its most recent grant award with UNOPS in Afghanistan, a 2007 award to design and construct boys and girls high schools.

for meetings and documentation after the grant. For example, a lead USAID investigator asked for bills of quantity for UNOPS projects that were underperforming to see if USAID had overpaid for those projects and to quantify how much money USAID had lost. Although the investigator sought meetings with the head of UNOPS in Afghanistan and the Acting Country Director of UNDP, the officials never responded to his requests for meetings and never provided the requested documentation. The investigator said that such problems will likely continue to occur with UN entities if USAID does not have a way to compel the UN to cooperate. However, some UNOPS officials have subsequently cooperated with requests for grant information made by the USAID Inspector General and other USAID OAA officials.

While USAID took actions related to UNOPS projects in Afghanistan based on the severity of the findings in the investigation reports, it took more than a year to reconcile the accounts, and USAID is still working to substantiate some claims from UNOPS. In July 2008 the Afghanistan Mission decreased UNOPS's scope of work, deobligated unexpended balances from expired awards, and issued bills for collection for outstanding amounts that had been advanced to UNOPS.⁴⁹ According to the Afghanistan Mission, UNOPS has since refunded the amounts requested in the bills for collection—including accrued interest and additional funds—and has also provided documentation for funds that had been incorrectly entered as expenditures for another international donor in the payment management system instead of expenditures belonging to USAID. However, the Afghanistan Mission is still working with UNOPS to substantiate claims for reimbursement that are being made for the Secondary Roads project that was terminated in December 2007. The UNOPS letter of credit was suspended in January 2008, requiring UNOPS to provide supporting documentation for approval before any additional funds were released. UNOPS has since requested \$16 million from USAID for costs incurred before USAID canceled the program, and while USAID Mission officials have already reimbursed UNOPS \$1.2 million, they are

⁴⁹USAID issued a bill for collection for \$40,053 and deobligated the unexpended balance of \$50,000 from the 2004 Emergency Drought Relief grant; issued a bill for collection for \$22,392 and deobligated the remaining balance of \$500,000 from the 2005 Rehabilitation of Afghanistan Geologic Survey and Ministry of Mines and Industry Complex grant; moved to close out the award and de-obligate the remaining balance from the 2004 Schools and Clinics grant; and secured a different implementer for follow-on work for the 2004 Rehabilitation of the Women's Dormitory grant.

still reviewing and clarifying UNOPS's documentation to determine additional amounts of repayment.⁵⁰

Conclusions

The current UNOPS management team has made significant progress in improving UNOPS's financial position and in making changes to its systems that are designed to address the deficiencies highlighted in numerous UN oversight organizations' audits and investigations. However, problems with data reliability in UNOPS's project management system, lengthy negotiations slowing its investigations, and limited ethics reporting are evidence that UNOPS management's reform efforts have not yet fully addressed UNOPS's internal control weaknesses. By fully implementing remaining reforms and assessing the overall effectiveness of the reform effort, UNOPS can provide the Executive Board assurance that the problems have been addressed.

USAID's policies are designed to provide USAID assurance that its project implementers are capable of responsibly managing U.S. funds. However, USAID's pre-award assessments of UNOPS did not include the numerous negative findings in UN audit reports that would have alerted USAID to the risks involved when using UNOPS as an implementing partner. If these assessments had shown UNOPS's risks, including its deficiencies in internal controls and inaccurate expenditure reporting, USAID may have recognized the importance of applying its required oversight authority to its grant awards. Instead, USAID's inconsistent implementation of its audit policies made its programs vulnerable to fraud, waste, and abuse. USAID forfeited access to information that may have revealed mismanagement of USAID funds years before costly post-project investigations did.

⁵⁰UNOPS officials told us that they have submitted all the appropriate paperwork to USAID, but that USAID Mission officials have been unwilling to meet with them or discuss the requested reimbursement. USAID officials said they have been discussing the matter for several months with UNOPS officials.

Recommendations for Executive Action

We recommend that the Secretary of State work with other member states to take the following 2 actions:

1. support UNOPS's continued management reforms as it addresses the areas of vulnerability that UN auditors have identified and
2. encourage UNOPS management to assess the effectiveness of the reform effort.

For adequate accountability of grants made with Public International Organizations (PIO), we make 4 recommendations to the USAID Administrator to ensure that USAID

1. develop and document its approach for assessing the eligibility of Public International Organizations deemed responsible for use by USAID,
2. define the terms and definitions in its existing guidance on PIO audit provisions permitting USAID access to financial records and documents,
3. ensure that cognizant contracting staff are sufficiently trained on the use of the PIO audit provisions, and
4. establish an approach to monitor whether the PIO audit provisions are implemented as required.

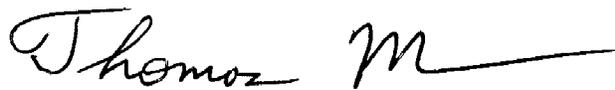
Agency Comments and Our Evaluation

We requested and received written comments on a draft of this report from State, USAID, and UNOPS. These comments are reprinted in appendixes VIII through X, along with our responses to specific points. UNOPS also submitted technical comments that we have incorporated into this report, as appropriate. In commenting on the draft, State endorsed the main findings and conclusions of the draft report. Specifically, State concurred with the recommendation that it support UNOPS in its continued efforts to improve management practices and committed to continue to encourage and monitor assessment of the impact of the reform effort. State noted that our assessment of UNOPS's progress is both accurate and balanced. State also noted that reforms in Executive Board access to internal audit reports is particularly important to fostering integrity, ethical conduct, and transparency. USAID concurred with our recommendations and proposed an agency plan to implement each recommendation and a target completion date. USAID agreed that it

needs to adopt improved procedures, stronger guidance, training, and monitoring related to the use of Public International Organizations (PIO) audit provisions. For each recommendation, USAID set an implementation target date of either May or June of 2010. UNOPS provided comments on some of our findings and acknowledged the need for assessment of long-term impact of its reforms, but stated that the most recent external audit and improved financial position are indicators that demonstrate improvement.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Executive Director of UNOPS, the Acting Administrator at the U.S. Agency for International Development, the Secretary of State, the U.S. Permanent Representative to the United Nations, and other interested congressional committees. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-9601 or melitot@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix XI.



Thomas Melito
Director, International Affairs and Trade

Appendix I: Scope and Methodology

To assess the extent to which United Nations (UN) Office of Project Services (UNOPS) has addressed key concerns about its internal controls, we reviewed key UN and UNOPS reports and documents outlining changes UNOPS management made to the organization and its operations from 2006 to 2009. We obtained and reviewed official reports from UNOPS's Executive Board and the UN General Assembly, UN Secretary-General bulletins, and UNOPS operational directives. We interviewed senior officials from UNOPS in New York, New York; Copenhagen, Denmark; and Geneva, Switzerland; and other UN officials in New York. Specifically, we met with officials from

- the UN Children's Fund,
- the UN Development Program (UNDP),
- the UN Population Fund,
- the Advisory Committee on Administrative and Budgetary Questions,
- the UN Mine Action Service,
- UN Ethics Office,
- the Office of Internal Oversight Services, and
- the Board of Auditors (BOA).

We also met with clients of UNOPS in Geneva—the Global Fund to Fight AIDS, Tuberculosis, and Malaria; and the Enhanced Integrated Framework—and Washington, D.C.—the U.S. Agency for International Development and the Departments of State, Defense, and Agriculture. We also discussed UNOPS reforms with Department of State (State) officials in Washington, D.C. and New York City.

We selected reforms in the areas of documentation, internal oversight, and ethics to track in more detail. We determined that these were key areas of reform through our review of UNOPS's annual reports to its Executive Board and UNOPS's Accountability Framework and in our discussions with UNOPS officials. We focused on reform efforts undertaken by the current management team since it was appointed in 2006. To assess the extent to which the Atlas project tracking system has improved the organization's financial documentation, we administered a survey—with a response rate of 100 percent—to the managers of UNOPS's 5 regional

offices and 12 operations centers. We sent a draft of the survey to UNOPS management, who required that we cut almost half of the proposed questions in the survey, including questions we felt were important in assessing Atlas's capacity to capture data and document transactions that could strengthen internal and financial controls. To determine how many survey respondents reported data reliability limitations in Atlas, we counted all respondents who answered that data were to no extent, to a little extent, to some extent, or to a moderate extent timely, accurate, or complete. To evaluate UNOPS's reforms in internal oversight, we compared UNOPS's internal audit program to Institute for Internal Auditors' International Standards for the Professional Practice of Internal Auditing and UNOPS's investigative program to the UN Uniform Guidelines for Investigations. We evaluated UNOPS's ethics program against the requirements for UN Ethics Offices established by UN Secretary-General's Bulletins ST/SGB/2007/11 and ST/SGB/2005/22 and against its own ethics policies.

To evaluate USAID's oversight of UNOPS-implemented projects, we reviewed information from both headquarters and the USAID missions. At headquarters, we reviewed USAID's policies for awarding, monitoring, and obtaining results from grants, including USAID's policies in the Automated Directives System, USAID's Acquisition Regulations, the Office of Management and Budget's Circular A-110, and the Federal Acquisition Regulations. We also reviewed reports on USAID's Office of Acquisition and Assistance, including prior reports from GAO¹ and USAID's Inspector General.² We reviewed program information from USAID's missions, including pre-award assessment memos, grant agreements, and modification memos. We compared USAID's grant-related activities from 2004 through 2008 with the criteria in GAO's *Standards for Internal Control in the Federal Government*.³ These standards, issued pursuant to the requirements of the Federal Managers' Financial Integrity Act of 1982, provide the overall framework for establishing and maintaining internal control in the federal government. We identified whether USAID was the

¹See GAO, *USAID Acquisition and Assistance: Actions Needed to Develop and Implement a Strategic Workforce Plan*, [GAO-08-1059](#) (Washington, D.C.: September 2008).

²USAID, Office of Inspector General, *U.S. Agency for International Development's (USAID) Most Serious Management and Performance Challenges* (Washington, D.C., October 23, 2008).

³See GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

sole, largest, or smallest contributor to its grants with UNOPS from 2004 through 2008 by reviewing the grant awards for additional donors and comparing this data with information from UNOPS officials. We then reviewed the Audit and Records provisions that were used in the grants. We created a comprehensive spreadsheet to compare the levels of USAID contributions with the Audit and Records provisions used. To determine whether USAID had documented pre-award assessments of UNOPS, we requested pre-award memorandum in accordance with USAID's policies for 11 awards and for any modifications to those awards made with UNOPS from 2004 through 2008. We reviewed all available memos that the USAID missions maintained, but for some grants the missions did not have documentation of these memos in their files. To determine if USAID had included findings from UN reports when completing the pre-award assessments, we reviewed audits and investigations from the BOA⁴ and the UNDP Office of Audit and Performance Review,⁵ which we compared to findings in USAID's pre-award assessments of UNOPS. We also reviewed investigations from the Procurement Task Force on UNOPS programs in

⁴United Nations General Assembly Report of the Board of Auditors, United Nations Office for Project Services *Financial Report and Audited Financial Statements for the Biennium ended 31 December 2001*, A/57/5/Add.10, (New York, New York; July 2002); United Nations General Assembly Report of the Board of Auditors, United Nations Office for Project Services *Financial Reports and Audited Financial Statements for the Biennium ended 31 December 2003*, A/59/5/Add.10, (New York, New York; July 2004); United Nations General Assembly Report of the Board of Auditors, United Nations Office for Project Services *Financial Reports and Audited Financial Statements for the Biennium ended 31 December 2005*, A/61/5/Add.10, (New York, New York; June 2007); and United Nations General Assembly, *Financial Reports and Audited Financial Statements and Reports of the Board of Auditors for the period ended 31 December 2007*, A/63/474 (New York, New York; June 2008).

⁵United Nations Executive Board of the United Nations Development Programme and of the United Nations Population Fund, *UNOPS: Report of the UNDP Office of Audit and Performance Review to the UNOPS Executive Director on Internal Audit Services in 2005*, DP/2006/32 (New York, New York; May 2006); and United Nations Executive Board of the United Nations Development Programme and of the United Nations Population Fund, *Report of the UNDP Office of Audit and Performance Review to the UNOPS Executive Director on Internal Audit Services in 2006*, DP/2007/38 (New York, New York; May 2007).

Kenya and Afghanistan,⁶ and from the USAID Inspector General on UNOPS programs in Afghanistan.⁷

We used data provided by USAID from its database sources to determine the amount of funding USAID obligated to Public International Organizations (PIO), including UNOPS, from 2004 to July 2009. However, USAID was unable to provide accurate counts of its obligation information. For example, USAID provided us a list of its PIO grants from its Electronic Procurement Information Collection System, New Management System, and Global Acquisition and Assistance System databases, but this information contained numerous inconsistencies. We made numerous attempts to resolve inconsistencies in the information USAID provided over the course of our review, which caused us to question its accuracy. As a result, we used UNOPS expenditure data from its U.S. grant awards to identify the total amount of USAID funding UNOPS has spent in the last 5 years. We used this data to supplement the obligation information provided by USAID.

In addition to our review of documents and grant files described above, we interviewed key staff at USAID headquarters in Washington, D.C., and USAID missions in Afghanistan, Haiti, Liberia, and Sudan and about how they conducted and documented grant-related activities since 2004.

We conducted this performance audit from July 2008 to November 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁶United Nations Office of Internal Oversight Services Procurement Task Force, *Final Report on a Concerned United Nations Staff Member and UNOPS Procurement*, PTF-R012/07 (New York, New York; August 2007); and United Nations Office of Internal Oversight Services Procurement Task Force, *Report on UNOPS Afghanistan and Former United Nations Staff Member*, PTF-R010-08 (New York, New York; December 2008).

⁷Office of Inspector General, U.S. Agency for International Development, *Report of Investigation, United Nations Development Program (UNDP)*, (Manila, Philippines; 2008).

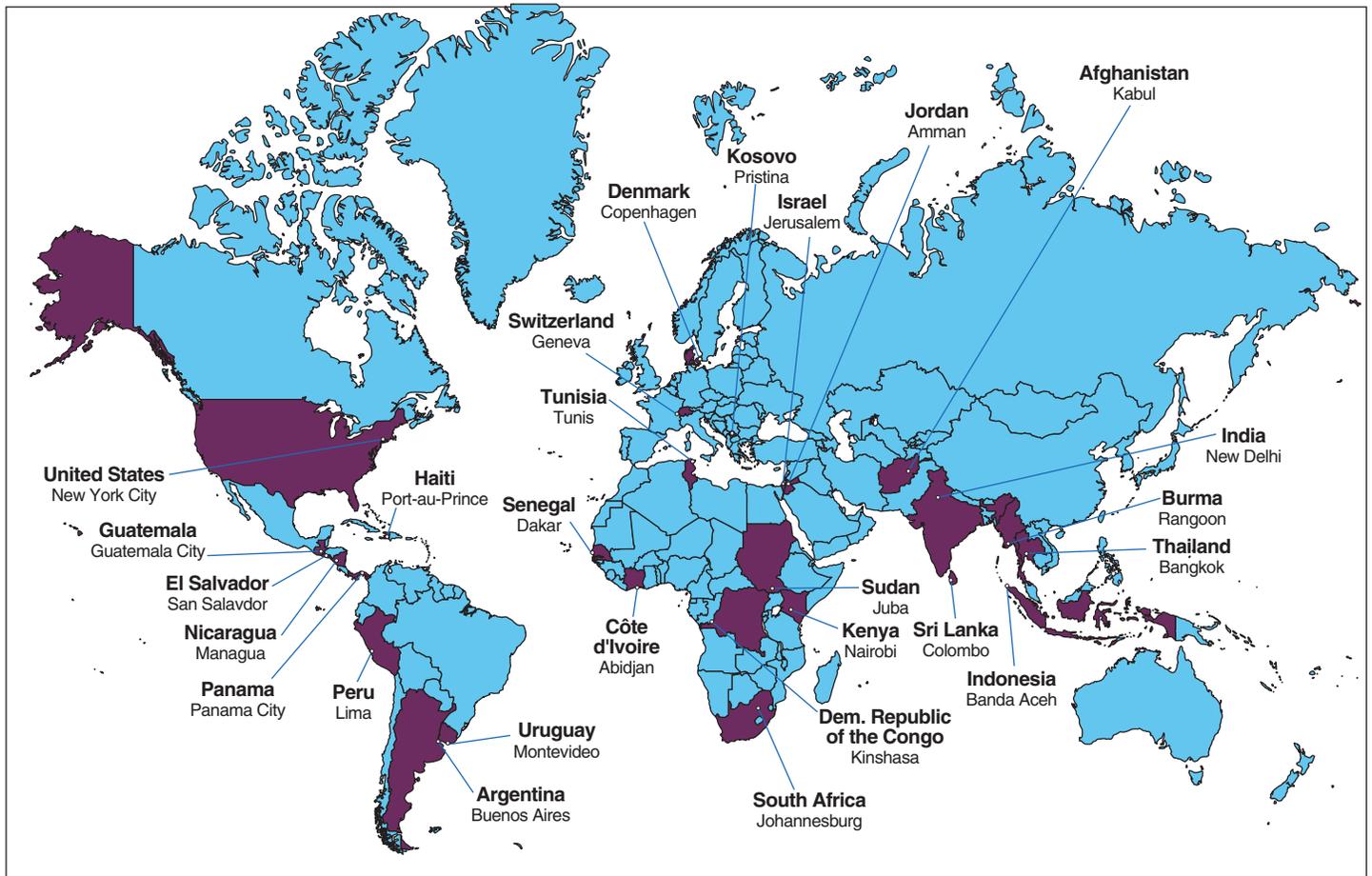
Appendix II: UNOPS's Locations Worldwide

United Nations Office of Project Services (UNOPS) operates from offices located worldwide, including headquarters, regional offices, operations centers, and project centers.¹ UNOPS's five regional offices are located in New York, New York; Bangkok, Thailand; Copenhagen, Denmark; Johannesburg, South Africa; and Panama City, Panama. In 2006, UNOPS moved its headquarters from New York to Copenhagen.² UNOPS also has 12 operations centers and 10 project centers throughout the world. Figure 2 shows UNOPS's primary office locations worldwide. From these locations UNOPS oversees activities in more than 50 countries.

¹For the purposes of our report, we use the term "field offices" to refer to all offices other than headquarters.

²According to UNOPS management, reasons for moving UNOPS headquarters from New York to Copenhagen included rent in UNOPS's offices in the Chrysler Building being too high and the offer of rent-free space in Copenhagen by the Danish government.

Figure 2: Locations of UNOPS Offices, as of 2009



Sources: GAO analysis of UNOPS data and Map Resources (map).

Appendix III: Types of Services Provided by UNOPS

As shown in table 6, United Nations Office for Project Services (UNOPS) services may be grouped according to the types of services it provides, although project management may encompass many different types of UNOPS services.

Table 6: Types of Services Provided by UNOPS

Service type	Explanation of service type
Project management	<ul style="list-style-type: none"> • Designing projects and preparing annual action plans. • Identifying, recruiting, and managing human resources. • Procuring goods and services. • Capacity-building for institutions and training key personnel to ensure long-term sustainability. • Financial management, including provision of accounting services and customized reporting per client requirements. • Fund management, where resources are disbursed through pooled funding mechanisms. • Establishing and conducting monitoring and evaluation systems, and reporting on project implementation.
Procurement	<ul style="list-style-type: none"> • Implementation of information technology procurement systems. • One-time stand-alone procurement services. • Complete management of procurement process. • Advisory services relating to, for example, sustainable procurement.
Human resources management	<ul style="list-style-type: none"> • Recruitment and selection. • Human resources advice. • Managing contracts and entitlements.
Financial management	<ul style="list-style-type: none"> • Trust-fund management, financial services and reporting. • Review and approval (or recommendation for approval) of applications. • Assessment of national capacity, including government institutions and nongovernmental organizations (NGO), to implement loan or grant activities. • Assessment of capacities and mandates of international organizations and NGOs to implement activities. • Capacity development of national institutions, including NGOs, in financial management and accounting, reporting, project management, procurement, human resource management, knowledge management, and monitoring and evaluation. • Advice to applicants on interpreting and responding to loan or grant requirements through all phases from pre-project to final reporting. • Project monitoring and reporting. • Certification of use of funds. • Recommendation of additional disbursements. • Independent audit of financial records. • Audit of compliance with applicable agreements and procedures.

**Appendix III: Types of Services Provided by
UNOPS**

Service type	Explanation of service type
UN common services	<ul style="list-style-type: none">• Negotiating and administering contracts for shared services.• Designing, contracting, and supervising construction of shared buildings and facilities.

Source: GAO analysis of UNOPS data.

Appendix IV: Designated International Organizations by the Department of State

The U.S. Agency for International Development (USAID) uses a list of international organizations approved for detail and transfer of federal employees to designate Public International Organizations (PIO) that may receive assistance agreements.¹ This list is composed of 124 organizations that the Department of State has designated as an international organization, as shown in table 7.

According to USAID data, USAID awarded grants or cooperative agreements to 50 different PIOs from January 2004 to July 2009 at a total estimated cost of approximately \$8.1 billion.² The majority of the awards were to United Nations (UN) entities. The largest amount of money was budgeted for World Food Program grants, at about \$1.9 billion, and for UN Children's Fund grants, at about \$1 billion.

Table 7: Department of State Designated International Organizations

United Nations (UN Secretariat, organs, and their subsidiary bodies and special programs)

- United Nations Secretariat (UN)
 - UN Capital Development Fund (UNCDF)
 - UN Center for Human Settlements (UNCHS)
 - UN Children's Fund (UNICEF)
 - UN Development Fund for Women (UNIFEM)
 - UN Development Program (UNDP)
 - UN Environmental Program (UNEP)
 - UN High Commissioner for Refugees (UNHCR)
 - UN International Training and Research Center (UNITAR)
 - UN Office on Drugs and Crime (UNODC)
 - UN Population Fund (UNFPA)
-

¹The list is maintained by the Office of Personnel Management under the Federal Employees International Organizations Service Act. The list includes any organization that the Department of State has designated as an international organization approved for detail and transfer of federal employees and can be accessed on Department of State (State) Web site: <http://www.state.gov/p/io/empl/126305.htm>. According to State, because the United Nations (UN) qualifies as an international organization in which the U.S. government participates, special programs of the UN usually qualify under the statute as well. The list of UN organizations, therefore, is meant to be illustrative, not exhaustive.

²USAID officials told us they filtered archived information from different UNOPS database sources, including the Electronic Procurement Information Collection System, the New Management System, and the Global Acquisition and Assistance System to generate a report listing PIOs that received USAID grants or cooperative agreements since January 2004. However, the report contained several data reliability concerns.

Appendix IV: Designated International Organizations by the Department of State

United Nations (UN Secretariat, organs, and their subsidiary bodies and special programs)

- UN Relief and Works Agency for Palestine Refugees in the Near East (UNRWA)
- UN University (UNU)
- UN Volunteers (UNV)
- International Court of Justice (ICJ)
- International Civil Service Commission (ICSC)
- International Criminal Tribunal for the Former Yugoslavia (ICTY)
- International Criminal Tribunal for Rwanda (ICTR)
- International Research and Training Institute for the Advancement of Women (INSTRAW)
- World Food Program (WFP)

Specialized agencies of the UN and related organizations

- Food and Agriculture Organization (FAO)
- International Agency for Research on Cancer (IARC)
- International Atomic Energy Agency (IAEA)
- International Civil Aviation Organization (ICAO)
- International Fund for Agricultural Development (IFAD)
- International Labor Organization (ILO)
- International Maritime Organization (IMO)
- International Telecommunication Union (ITU)
- UN Educational, Scientific and Cultural Organization (UNESCO)
- Universal Postal Union (UPU)
- World Health Organization (WHO)
- World Intellectual Property Organization (WIPO)
- World Meteorological Organization (WMO)

International financial institutions

- Bank for International Settlements (BIS)
 - International Monetary Fund (IMF)
 - North American Development Bank (NADB)
 - UN Regional Development Banks
 - African Development Bank
 - Asian Development Bank
 - European Bank for Reconstruction and Development (EBRD)
 - Inter-American Development Bank (IDB)
 - World Bank Group
 - International Bank for Reconstruction & Development (IBRD)
 - International Center for Settlement of Investment Disputes (ICSID)
 - International Finance Corporation (IFC)
 - Multilateral Investment Guarantee Agency (MIGA)
-

**Appendix IV: Designated International
Organizations by the Department of State**

Inter-American organizations

- Border Environment Cooperation Commission (BECC)
- Inter-American Center of Tax Administrators (CIAT)
- Inter-American Indian Institute (IAII)
- Inter-American Institute for Cooperation in Agriculture (IICA)
- Inter-American Institute for Global Change Research (IAI)
- Inter-American Tropical Tuna Commission (IATTC)
- Organization of American States (OAS)
- Pan American Health Organization (PAHO)
- Pan American Institute of Geography and History (PAIGH)
- Pan American Railway Congress Association (ACPF) (Argentina)
- Postal Union of the Americas, Spain and Portugal (PUASP)

Other regional organizations

- Asia Pacific Energy Research Center (APEREC)
- Colombo Plan Council
- Great Lakes Fisheries Commission (GLFC)
- International Energy Agency (IEA)
- North Atlantic Assembly (NAA)
- North Atlantic Treaty Organization (NATO)
- Nuclear Energy Agency (NEA)
- Organization for Economic Cooperation and Development (OECD)
- South Pacific Commission (SPC)

Other international organizations

- Center for International Forestry Research (CIFOR)
 - Commission for Environmental Cooperation (CEC)
 - Commission for Labor Cooperation
 - Commission for the Conservation of Antarctic Marine Living Resources (CCAMLR)
 - Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO)
 - Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)
 - COPAS-SARSAT (Search and Rescue Satellite System)
 - Global Biodiversity Information Facility (GBIF)
 - The Global Fund (to Fight AIDS, Tuberculosis and Malaria)
 - The Hague Conference on Private International Law (HCOPIL)
 - International Agreement on the Maintenance of Certain Lights in the Red Sea
 - International Bureau for the Permanent Court of Arbitration (PCA)
 - International Bureau for the Protection of Industrial Property
 - International Bureau for the Publication of Customs Tariffs
 - International Bureau of Weights and Measures (BIPM)
 - International Center for Agricultural Research in the Dry Areas (ICARDA)
-

**Appendix IV: Designated International
Organizations by the Department of State**

Other international organizations

- International Center for the Study of the Preservation and Restoration of Cultural Property
 - International Coffee Organization (ICO)
 - International Committee of the Red Cross (ICRC)
 - International Cotton Advisory Committee (ICAC)
 - International Council for the Exploration of the Sea (ICES)
 - International Criminal Police Organization (INTERPOL)
 - International Crops Research Institute for the Semi-Arid Tropics (ICRISAT)
 - International Development Law Institute (IDLI)
 - International Energy Forum Secretariat (IEFS)
 - International Fertilizer Development Center (IFDC)
 - International Grains Council (IGC)
 - International Human Frontier Science Program Organization (HFSP)
 - International Hydrographic Organization (IHO)
 - International Institute for Cotton
 - International Institute for the Unification of Private Law (UNIDROIT)
 - International Mobile Satellite Organization (IMSO)
 - International Organization for Legal Metrology (OIML)
 - International Organization for Migration (IOM)
 - International Organization of Supreme Audit Institutions (INTOSAI)
 - International Plant Genetics Resources Institute (IPGRI)
 - International Rubber Study Group (IRSG)
 - International Science and Technology Center (ISTC)
 - International Seed Testing Association (ISTA)
 - International Service for National Agriculture Research (ISNAR)
 - International Tropical Timber Organization (ITTO)
 - International Union of Credit and Investment Insurers (Berne Union)
 - International Whaling Commission (IWC)
 - Inter-Parliamentary Union (IPU)
 - Iran-United States Claims Tribunal
 - Korean Peninsula Energy Development Organization (KEDO)
 - Multinational Force and Observers (MFO)
 - North American Commission for Environmental Cooperation (CEC)
 - North Pacific Anadromous Fish Commission (NPAFC)
 - Organization for the Prohibition of Chemical Weapons (OPCW)
 - Organization for Security and Cooperation in Europe (OSCE)
 - Pacific Aviation Safety Office (PASO)
 - Permanent International Association of Navigation Congresses (PIANC)
 - Regional Environmental Center for Central and Eastern Europe (REC)
 - Science and Technology Center in Ukraine (STCU)
-

**Appendix IV: Designated International
Organizations by the Department of State**

Other international organizations

- Sierra Leone Special Court
 - World Customs Organization (WCO)
 - The World Heritage Fund
 - The World Organization for Animal Health (OIE)
 - World Trade Organization (WTO)
-

Source: GAO presentation of Department of State data.

Appendix V: Results of GAO's Survey of UNOPS Field Office Managers

We sent a survey to the managers of 17 United Nations Office of Project Service (UNOPS) field offices—its 5 regional offices and 12 operations centers. All 17 managers responded to the survey. Questions focused on UNOPS's project management system, Atlas. See tables 8 and 9 below for a compilation of all the responses to survey questions referred to in this report.

Table 8: UNOPS Field Office Responses to GAO Survey Question about Atlas Data Reliability

To what extent, if any, do you believe that the data in Atlas for the entire UNOPS system have each of the attributes listed below?

	To no extent	To a little extent	To some extent	To a moderate extent	To a great extent	To a very great extent
Timeliness	0	0	4	3	9	1
Accuracy	0	0	4	2	8	3
Completeness	0	2	2	2	9	2

Source: GAO analysis of survey responses from UNOPS field office managers.

**Appendix V: Results of GAO's Survey of
UNOPS Field Office Managers**

Table 9: UNOPS Field Office Responses to GAO Survey Question about Conditions Making Atlas Use Difficult

Listed below are some conditions that might make it difficult for an organization to use Atlas. For each condition that your office has encountered please indicate how difficult if at all that condition typically has made it for your office to use Atlas.

Condition has not been encountered	Condition has been encountered and has made it...?					
	Not at all or a little difficult	Somewhat difficult	Moderately difficult	Very difficult	Extremely difficult	
System is slow	3	3	8	2	1	0
Poor connectivity or inability to access	5	3	5	4	0	0
Unclear what information the system is requesting	7	7	2	1	0	0
Unclear what information the system is requiring	7	7	2	1	0	0
Entering data takes too long	3	4	3	6	1	0
System requires documentation that is too detailed ^a	6	7	2	1	0	0
System is not flexible enough to capture different types of projects	6	7	3	0	1	0
Technical glitches	2	5	4	5	1	0
System produces reports that do not meet the needs of the field offices	1	1	6	5	4	0
System does not permit complete project documentation	8	3	4	2	0	0

Source: GAO analysis of survey responses from UNOPS field office managers.

^aOne office did not respond to this question.

Appendix VI: USAID Oversight Policies for Grants with Public International Organizations

According to U.S. Agency for International Development's (USAID) policies outlined in its Automated Directive System (ADS) 308, USAID is required to apply specific pre-award assessment policies when making grants with Public International Organizations (PIO). In addition, the ADS 308 Mandatory Standard Provisions outline standard provisions that USAID, when applicable, is required to use. According to this policy, when a standard provision is determined to be applicable in accordance with the applicability statement, the use of such standard provision is mandatory unless a deviation has been approved.

Table 10: USAID's ADS Policies and Provisions for Grants with PIOs

ADS 308.3.2—Grant Agreements with PIOs

Effective October 10, 2003

Grant Agreements with PIOs are appropriate when the Agreement Officer makes a pre-award determination that all of the following conditions are met:

- A Support for a PIO's program or activity (either an expansion of its current program or the initiation of a new program or activity) is considered to be an effective and efficient way to achieve a particular development assistance or disaster relief objective;
- B The program and objectives of the PIO are compatible with those of USAID;
- C There is no reason to consider the PIO not responsible; and
- D Grants are made for specific programs of interest of USAID. Under the "augmentation" rule, a USAID grant may not fund the general operating budget of a PIO if that general operating budget is being funded by voluntary contributions from the Department of State under its "international organizations" budget or U.S. assessed contributions or dues. This does not prohibit funding of administrative fees applicable to the USAID activity.

The requesting office must include a memo addressing the points in this section in any implementation request to the Agreement Officer to award a grant to a PIO.

ADS 308.3.6.2—Application of USAID's Procurement and Audit Policies to a PIO

Effective October 10, 2003

If USAID is the sole contributor, USAID procurement policies and procedures will apply to purchases of goods and services by the grantee to the same extent as in grants to non-U.S. nongovernmental organizations (ADS 303.5.15), unless they are specifically waived.

If USAID is not the sole contributor but is still the largest contributor, USAID, with the concurrence of the Department of State, Office of International Organizations (IO), may elect to negotiate the application of selected procurement and audit policies with the PIO to protect U.S. interests.

If USAID is a minor contributor to a program, USAID will rely on the international organization's procurement policies and procedures.

ADS 308 Required as Applicable Standard Provisions for Grants to PIOs

Standard Audit and Records Provision—Non-UN Grantees (December 2003)

Applicable when USAID is not the sole contributor to the grant

The grantee is required to maintain books, records, documents, and other evidence in accordance with the grantee's usual accounting procedures to sufficiently substantiate charges to the grant. The grantee confirms that this program will be subject to an independent audit in accordance with the Grantee's usual auditing procedures, and agrees to furnish copies of these audit reports to USAID along with such other related information as may be reasonably requested by USAID with respect to questions arising from the audit report.

**Appendix VI: USAID Oversight Policies for
Grants with Public International
Organizations**

USAID Sole Contributor Provision (December 2003)

Applicable when USAID is the sole contributor to the grant

The grantee is required to maintain books, records, documents, and other evidence in accordance with the grantee's usual accounting procedures to sufficiently substantiate charges to the grant. The grantee agrees to make available to USAID or the Comptroller General of the United States all records and documents that support expenditures made under the program.

Audit and Records – UN Grants (July 1988)

Applicable to grants to the United Nations when USAID is not the sole contributor

The grantee agrees to furnish the U.S. Government with a final report on activities carried out under this grant, including accounting for grant funds in sufficient detail to enable USAID to liquidate the grant.

It is understood that financial records, including documentation to support entries on accounting records and to substantiate charges against the grant, will be maintained in accordance with the grantee's usual accounting procedures, which must follow generally accepted accounting practices. All such financial records must be maintained for at least three years after the final disbursement of funds under this grant.

The grantee confirms that the grant account will be audited applying established procedures under appropriate provisions of the financial regulations and rules of the United Nations. The report must be submitted to the U.S. Mission to the UN in New York for forwarding to the USAID program office.

Source: USAID policies

Appendix VII: USAID's Documented Pre-Award Assessments of UNOPS

According to policy directives, the U.S. Agency for International Development's (USAID) agreement officers, who are responsible for signing grants to Public International Organizations (PIO), must complete pre-award assessments documented in a memo from the requesting office that justify using the PIO as a grantee for the program. In addition, USAID officials told us that this assessment should also be specifically completed before a modification that significantly increases the budget of the original award. We reviewed available information from USAID missions for all 11 of USAID's awards with UNOPS from 2004 through 2008 to determine which awards and modifications documented these assessments (see figure 3).

Appendix VII: USAID's Documented Pre-Award Assessments of UNOPS

Figure 3: USAID's Documented Assessments of UNOPS, 2004 through 2008

Date	Award title	Starting budget	Modification increased budget by	USAID provided documentation of pre-award assessment
Feb. 5, 2004	Afghanistan: Rehabilitation and Reconstruction of National Secondary Roads	\$35,000,000		⊖
Aug. 23, 2004	Modification 04		\$182,769,875	○
Apr. 17, 2006	Modification 11		\$93,290,125	●
Oct. 17, 2006	Modification 14		\$2,980,100	○
Dec. 16, 2006	Modification 15		\$51,902,538	○
Feb. 24, 2004	Afghanistan: Rehabilitation Restoration of the Women's Dormitory Building of the University of Kabul	\$8,150,000		⊖
Aug. 31, 2004	Modification 02		\$2,974,898	○
Jan. 8, 2005	Modification 03		\$228,210	○
May 31, 2006	Modification 06		\$236,450	○
Nov. 21, 2007	Modification 08		\$2,568	○
Nov. 17, 2008	Modification 10		\$128,475	○
May 2004	Afghanistan: Schools and Clinics Construction and Refurbishment Program	\$6,888,175		○
Jan. 18, 2007	Modification 07		\$594,230	○
Sept. 1, 2004	Afghanistan: Emergency Drought Relief	\$50,000		●
Sept. 20, 2004	Modification 01		\$100,000	○
May 16, 2005	Liberia: Barclayville Rapid Bridge Construction	\$996,408		●
July 19, 2006	Modification 01		\$64,742	○
Aug. 22, 2005	Haiti: Election Assistance to Democratic Parties	\$3,000,000		●
Dec. 5, 2005	Modification 01		\$824,890	○
Sept. 25, 2005	Afghanistan: Rehabilitation of Afghanistan Geologic Survey and Ministry of Mines and Industry Complex	\$6,804,774		○
July 10, 2006	Haiti: Rehabilitation of Hydro-Electric Plants	\$4,100,000		○
Aug. 23, 2006	Sudan: Building Bridges/ Health Posts	\$31,850,000		●
Dec. 27, 2006	Modification 02		\$8,000,000	●
Sept. 30, 2008	Modification 05		\$22,462,000	●
June 7, 2007	Afghanistan: Design and Construction of Boys and Girls High Schools	\$23,400,000		○
Sept. 30, 2008	Democratic Republic of the Congo: Stabilization along the Rutshuru-Ishasa Axis	\$5,000,000		○

● USAID provided documentation of an assessment memo addressing the Automatic Directive System (ADS) 308.3.2 criteria

⊖ USAID provided documentation of an assessment memo, but the memo was an unsigned, unofficial document that did not address the ADS 308.3.2 criteria

○ USAID did not provide documentation of an assessment memo

Source: GAO analysis of USAID data.

Appendix VIII: Comments from the Department of State



United States Department of State

Assistant Secretary and Chief Financial Officer

Washington, D.C. 20520

NOV 10 2009

Ms. Jacquelyn Williams-Bridgers
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "UNITED NATIONS: UNOPS Management Reforms Proceeding but Effectiveness Has not Been Assessed, and USAID's Oversight of Grants with UNOPS Has Weaknesses," GAO Job Code 320622.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Brian Hackett, Program Analyst, Bureau of International Organization Affairs at (202) 647-6419.

Sincerely,

A handwritten signature in black ink that reads "James L. Millette".

James L. Millette

cc: GAO – Phil Thomas
IO – Ester Brimmer
State/OIG – Mark Duda

Department of State Comments on GAO Draft Report

UNITED NATIONS: UNOPS Management Reforms Proceeding but Effectiveness Has not Been Assessed, and USAID's Oversight of Grants with UNOPS Has Weaknesses
(GAO-10-168, GAO Code 320622)

Thank you for the opportunity to comment on your draft report entitled UNITED NATIONS: UNOPS Management Reforms Proceeding but Effectiveness Has not Been Assessed, and USAID's Oversight of Grants with UNOPS Has Weaknesses. The Department of State has long been a strong supporter of efforts to improve the management of the United Nations and welcomes the GAO report on the UN Office of Project Services (UNOPS). The report provides timely information on several aspects of the ongoing effort to revitalize the administration of UNOPS. This review focuses on the continuing efforts by member states and the UNOPS Secretariat to strengthen ethics, oversight, and procurement systems, and improve the operations of the Secretariat, issues that the U.S. has been at the forefront of promoting.

The Department of State endorses the main findings and conclusions of the GAO report. We believe that the GAO's assessment of progress is both accurate and balanced. As the report notes, UNOPS has made more substantial progress in some areas than in others related to management reforms. To help move the reform process forward, the GAO recommends that the Department of State support the continued efforts at UNOPS to address the vulnerabilities identified by UN auditors and encourage UNOPS management to assess progress in this regard.

The Department of State agrees fully with the need to support UNOPS in its continued efforts to improve management practices, especially those related to internal controls. In fact, we believe that an assessment of the impact of the larger reform effort will be a particularly useful measure of progress, and we will continue to encourage and monitor this ongoing process. The GAO makes several observations concerning the status of ethics systems at UNOPS. The report also notes that the Executive Board Members lack full access to all UNOPS internal audit reports. Better access to these reports could increase transparency and provide further insight into UNOPS operations. The Department of State considers reforms in this area particularly important to fostering integrity, ethical conduct, and transparency. The Department also believes that the U.S. must have the ability to best determine that UNOPS and other international organizations alike can carry out their work as effectively as possible and with appropriate management control and oversight.

Appendix IX: Comments from the U.S. Agency for International Development



USAID
FROM THE AMERICAN PEOPLE

NOV 10 2009

Thomas Melito
Director
International Affairs and Trade
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Melito:

I am pleased to provide the U.S. Agency for International Development's (USAID) formal response on the draft GAO report entitled, "*UNOPS Management Reforms Proceeding but Effectiveness Has not Been Assessed, and USAID's Oversight of Grants with UNOPS Has Weaknesses*" (GAO-10-168).

USAID agrees that it needs to adopt improved procedures, stronger guidance, training, and monitoring related to the use of Public International Organizations (PIO) audit provisions. USAID has been and will continue to actively review its policies and procedures to address the inconsistencies in the application of existing PIO-related policies. Through our review, we are defining the steps necessary to strengthen our procedures and better define our policies, while maintaining the flexibility to deliver successful development assistance in difficult environments.

Please find our planned approaches to the following recommendations.

GAO Recommendation 1: Develop and document approach for assessing the eligibility of PIOs deemed responsible for use by USAID.

USAID Management Response: USAID concurs with this recommendation. The Agency will establish new guidance to be delivered to all procurement staff. This guidance will identify available sources of information that staff may use to conduct responsibility determinations to facilitate awareness of existing

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
www.usaid.gov

performance and system problems with a PIO prior to awarding an agreement to the PIO. Target completion date: June 30, 2010.

GAO Recommendation 2: Define the terms and definitions in its existing guidance on PIO audit provisions permitting USAID access to financial records and documents.

USAID Management Response: USAID concurs with this recommendation. USAID is reviewing policy stated in ADS 308 on PIO audit provisions to further define existing terms and the definitions that are relevant to determining when a particular audit provision must be included in an award. The Agency will revise all relevant internal guidance. Target completion date: May 31, 2010.

GAO Recommendation 3: Ensure cognizant contracting staffs are sufficiently trained on the use of the PIO audit provisions.

USAID Management Response: USAID concurs with this recommendation. USAID procurement staff will be trained on the appropriate use of USAID PIO audit provisions by spring 2010. The Agency also will develop additional training on PIO-related practices and policies. Target completion date: May 31, 2010.

GAO Recommendation 4: Establish an approach to monitor whether the PIO audit provisions are implemented as required.

USAID Management Response: USAID concurs with this recommendation. USAID is working to establish and finalize an approach to monitor USAID staff compliance with appropriate use and implementation of audit provisions within our assistance awards to PIOs. Target completion date: June 30, 2010.

Thank you for the opportunity to respond to this GAO draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,

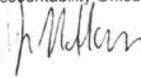


Drew W. Luten
Acting Assistant Administrator
Bureau of Management

Appendix X: Comments from the UN Office for Project Services

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



Date: 9 November 2009
To: Whom it may concern
US Government Accountability Office
From: Jan Mattsson 
Executive Director
UNOPS
Subject: GAO draft report on UNOPS

UNOPS would like to thank GAO for the opportunity to provide brief comments on the draft report. Due to space limitations, this response is confined to the following key areas:

1. While the full impact of any major reform should be assessed long-term, **there are incontrovertible indicators that the far-reaching reforms undertaken by UNOPS in the last three years are bearing fruit.** In particular, after three consecutive biennia of qualified audit reports, UNOPS received an unqualified audit opinion from external auditors for the biennium 2006-2007. As a result of the much-improved internal controls, in August 2008 the UN Comptroller removed all limitations on working with UNOPS which had been in effect for over two years. In 2008-2009 UNOPS was able to sign a number of framework agreements with partners, including UN agencies, the European Commission and the World Bank. Such agreements were signed after thorough assessments by partners of UNOPS internal controls. According to annual surveys, stakeholders' confidence in UNOPS improved to an all-time-high. Against this background, UNOPS revenue and new business almost doubled and operational reserves increased seven-fold since 2006. Furthermore, the audit reports and investigations with "negative findings" mentioned by GAO relate to the period up to and including 2006.
2. UNOPS understands that the scope of the GAO review was limited, but would like to point out that **management reforms at UNOPS encompassed many areas not covered by the GAO report**, among others, human resources, procurement, finance, general administration and project management. There has also been a complete overhaul of the policy framework of the organization, with 26 of the 29 organizational directives currently in use at UNOPS developed in the last three years.
3. UNOPS wishes to emphasize that **the alleged wrongdoing in Afghanistan in the period 2002-2006 was identified internally following complaints from whistleblowers and a comprehensive investigation launched by the new UNOPS senior management team taking office in mid-2006.** The Procurement Task Force report highlights that: "It is important to note that the current Administration of UNOPS was not in place during the time period under examination. Throughout the investigation, UNOPS senior management gave the Task Force wide latitude and the independence which was required, and directed the complete cooperation by all UNOPS staff members. These officials should be lauded for their acts of transparency and the request for, and acceptance of, an independent investigation".
4. In the last three years OIOS conducted six investigations into UNOPS activities. Only one of these is at present incomplete and **UNOPS has settled in full all the respective bills presented by OIOS.** During the same period UNOPS' strengthened audit and investigations office completed a number of internal

See comment 1.



investigations. The reference in the report that "some" of the \$400 million of USAID funds had been misspent is technically correct, however the estimated amount of misappropriations alleged, while totally unacceptable, represents a minor portion of this amount. As to the Afghanistan investigation, the report was duly referred, in May 2009, to the US Permanent Mission to the UN for its consideration and further action. Phases two and three of this investigation will be completed following a determination by OIOS as to the scope and nature of these reviews.

See comment 2.

5. UNOPS believes that a **systematic assessment of the PeopleSoft-based ERP does take place on an ongoing basis**. In addition to internal assessments, the data integrity in this software's environment was reviewed by external audit as well as by one of the big four accounting firms who assessed the software for performance and data security.

See comment 3.

6. **UNOPS has complied with, or exceeded, all UN requirements on ethics training and financial disclosure**. For example, UNOPS management extended the coverage of the ethics training and financial disclosure programme beyond staff members to other personnel, such as individual contractors.

See comment 4.

7. The report does not explain the "**single audit principle**" which at the behest of Member States is enshrined in the Financial Regulations and Rules of UN entities. **The UNDP/UNFPA/UNOPS Executive Board decided in September 2008 on a specific procedure for the disclosure of internal audits**. Consequently, UNOPS is not permitted by its governance and oversight bodies to agree to full access to audit by any party outside of the UN Board of Auditors. The removal of certain proposed questions in the PeopleSoft-based ERP survey was based on legal advice with regard to the single audit principle.

8. Despite a number of weaknesses identified at UNOPS prior to its management reforms, **there is no evidence in the report to demonstrate that the implementation of USAID grants by UNOPS was anything other than successful overall**. For example, between 2002 and 2007 UNOPS built almost 900 kilometers of rural access roads in Afghanistan in the most challenging climatic and security conditions. UNOPS takes exception to certain allegations made by the USAID Inspector-General. These were not well substantiated, as suggested by a recent UNDP/UNOPS audit, and refer to only four out of 108 sub-projects implemented under the Quick PRT project.

Following are GAO's comments on the UNOPS letter dated November 9, 2009.

GAO Comments

1. Regarding investigations, UNOPS noted that only one of six investigations performed by OIOS is incomplete. Because investigators recommended the remaining two phases of the Afghanistan investigation after they found alleged criminal activity and mismanagement of funds in the first phase of the investigation, we maintain that timely investigation of these activities is essential for UNOPS to demonstrate that it has provided sufficient resources for investigations. Furthermore, the remaining phases include plans to investigate broader management responsibility for the inappropriate activities identified in the first phase.
2. UNOPS stated that systematic assessment of Atlas takes place on an ongoing basis. However, according to some UNOPS officials we spoke with, assessment of data reliability was not conducted in a systematic manner. Moreover, based on our survey findings, data reliability remains an ongoing problem.
3. Regarding ethics training, UNOPS reported that it has complied with, or exceeded UN requirements. We modified our report to note that UNOPS's policy exceeds UN requirements, but maintain that UNOPS is not fully meeting its own requirement to provide ethics training for all its personnel. Additionally, we reported that a technical glitch in the system has kept UNOPS management and Ethics Officer from verifying who has completed the course.
4. UNOPS said that our report does not explain the "single audit principle" as it relates to external audits of UN entities. The United States supports the "single audit principle" and we note that GAO has successfully completed a body of work reviewing UN entities in which we successfully gained the voluntary cooperation of UN entities to perform our work. We had similar cooperation from UNOPS and had access to sufficient information to complete this review.

Appendix XI: GAO Contact and Staff Acknowledgments

GAO Contact

Thomas Melito, (202) 512-9601 or melitot@gao.gov

Staff Acknowledgments

In addition to the person named above, Phillip Thomas (Assistant Director), Jeffrey Baldwin-Bott, Erin Carson, Debbie Chung, Leah DeWolf, Etana Finkler, and McKenzie Lawyer Davies made key contributions to this report. Joel Grossman, Jackson Hufnagle, Grace Lui, and Jena Sinkfield also provided technical assistance.

Related GAO Products

United Nations: Renovation Still Scheduled for Completion in 2013, but Risks to Its Schedule and Cost Remain. [GAO-09-870R](#). Washington, D.C.: July 30, 2009.

United Nations Peacekeeping: Challenges Obtaining Needed Resources Could Limit Further Large Deployments and Should Be Addressed in U.S. Reports to Congress. [GAO-09-142](#). Washington, D.C.: December 18, 2008.

United Nations Peacekeeping: Lines of Authority for Field Procurement Remain Unclear, but Reforms Have Addressed Some Issues. [GAO-08-1094](#). Washington, D.C.: September 18, 2008.

Afghanistan Reconstruction: Progress Made in Constructing Roads, but Assessments for Determining Impact and a Sustainable Maintenance Program Are Needed. [GAO-08-689](#). Washington, D.C.: July 8, 2008.

United Nations: Renovation Schedule Accelerated after Delays, but Risks Remain in Key Areas. [GAO-08-513R](#). Washington, D.C.: April 9, 2008.

United Nations: Management Reforms and Operational Issues. [GAO-08-246T](#). Washington, D.C.: January 24, 2008.

United Nations: Progress on Management Reform Efforts Has Varied. [GAO-08-84](#). Washington, D.C.: November 14, 2007.

United Nations Organizations: Oversight and Accountability Could Be Strengthened by Further Instituting International Best Practices. [GAO-07-597](#). Washington, D.C.: June 18, 2007.

Peacekeeping: Observations on Costs, Strengths, and Limitations of U.S. and UN Operations. [GAO-07-998T](#). Washington, D.C.: June 13, 2007.

Update on the United Nations Capital Master Plan. [GAO-07-414R](#). Washington, D.C.: February 15, 2007.

United Nations: Renovation Planning Follows Industry Practices, but Procurement and Oversight Could Present Challenges. [GAO-07-31](#). Washington, D.C.: November 16, 2006.

United Nations: Management Reforms Progressing Slowly with Many Awaiting General Assembly Review. [GAO-07-14](#). Washington, D.C.: October 5, 2006.

United Nations: Additional Efforts Needed to Increase U.S. Employment at UN Agencies. [GAO-06-988](#). Washington, D.C.: September 6, 2006.

United Nations: Weaknesses in Internal Oversight and Procurement Could Affect the Effective Implementation of the Planned Renovation. [GAO-06-877T](#). Washington, D.C.: June 20, 2006.

United Nations: Oil for Food Program Provides Lessons for Future Sanctions and Ongoing Reform. [GAO-06-711T](#). Washington, D.C.: May 2, 2006.

United Nations: Internal Oversight and Procurement Controls and Processes Need Strengthening. [GAO-06-710T](#). Washington, D.C.: April 27, 2006.

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

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

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

United Nations: Peacekeeping: Cost Comparison of Actual UN and Hypothetical U.S. Operations in Haiti, [GAO-06-331](#). Washington, D.C.: February 21, 2006.

United Nations: Preliminary Observations on Internal Oversight and Procurement Practices. [GAO-06-226T](#). Washington, D.C.: October 31, 2005.

United Nations: Sustained Oversight Is Needed for Reforms to Achieve Lasting Results. [GAO-05-392T](#). Washington, D.C.: March 2, 2005.

United Nations: Observations on the Management and Oversight of the Oil for Food Program. [GAO-04-730T](#). Washington, D.C.: April 28, 2004.

United Nations: Observations on the Oil for Food Program. [GAO-04-651T](#). Washington, D.C.: April 7, 2004.

United Nations: Reforms Progressing, but Comprehensive Assessments Needed to Measure Impact. [GAO-04-339](#). Washington, D.C.: February 13, 2004.

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

United Nations: Targeted Strategies Could Help Boost U.S. Representation. [GAO-01-839](#). Washington, D.C.: July 27, 2001.

United Nations: Planning for Headquarters Renovation Is Reasonable; United States Needs to Decide whether to Support Work. [GAO-01-788](#). Washington, D.C.: June 15, 2001.

United Nations: Reform Initiatives Have Strengthened Operations, but Overall Objectives Have Not Yet Been Achieved. [GAO/NSIAD-00-150](#). Washington, D.C.: May 10, 2000.

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 afternoon, GAO posts on its Web site newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to www.gao.gov and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's Web site, <http://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Ralph Dawn, Managing Director, dawnr@gao.gov, (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

