

A REAL UN FRAUD PREVENTION **PROGRAMME**

The Association of Certified Fraud Examiners is a group of some 32,000 people worldwide, nearly half of whom are fully Certified Fraud Examiners. They work in accounting, consulting, internal audit, law enforcement, security/loss prevention, audit and the legal profession, and have an extensive network of learning events and training courses annually to enable ACFE members to collaborate and enhance their professional investigative skills.

The ACFE website is at www.cfenet.com/home.asp

Fraud is growing everywhere because of limited emphasis on deterrence. A 2003 global survey of corporations found economic crime significant in every industry and region (significant in 51 percent of African entities, 41 percent in North America, 39 percent in Asia and the Pacific, and growing to 34 percent in Western Europe and 37 in Eastern Europe.

"Fraud speaks thousands of languages", White Paper, ACFE, March/April 2004, p. 46.

Fraudulent behavior is, unfortunately, human nature and its root causes can never really be removed. What is important is deterrence -- that is, modifying behavior through the perception of negative sanctions. In broad outline:

- (1) internal controls are important, but not sufficient;
- (2) employees who perceive that they will be caught if they engage in occupational fraud and abuse are less likely to commit it;
- (3) employee awareness and education is critical, since the fraud-educated workforce is the best ally in fighting fraud;
- (4) fraud needs to be brought "out of the closet", by raising fraud and abuse issues in a non-accusatory manner in all audit work to make people continually aware of the consequences of engaging in illegal acts;

(5) employee reporting is essential, since experience seems to indicate that most fraud is known, and that employee reporting to hotlines (if it is clear that it will be protected and not punished) uncovers more fraud and abuse than all other methods of fraud detection combined;

(6) corporate sentencing guidelines, and equivalent actions in governments, and a firm emphasis on "due diligence" duties, are increasingly decisive in strengthening and deterring fraud and abuse; and

(7) a formal ethics policy and code are needed to facilitate proper conduct enforcement, but they must be driven by strong leadership and personal example from senior officials, not by a list of punitive statements.

Wells, Joseph T, Occupational fraud and abuse, Obsidian, US, **1997**, esp. pp. 516-546.

[Note: Major ACFE reports of 1996, 2002, and 2004, and an updated and extensive report in **2002** by multiple oversight groups on Management Antifraud Programs and Controls as a "road map" of proactive steps to prevent and deter fraud, are available at www.cfenet.com/home.asp

A detailed "Fraud prevention checkup" is also available at www.CFEnet.com/servicesFrdPrevCheckUp.asp .

In 2004 the ACFE published a two-part series by Martin T. Biegelman, "Designing a robust fraud prevention programme: Ounce of prevention does equal pound of cure", White Paper, ACFE, **January-February 2004**, pp. 30-33, and **March-April 2004**, pp. 23-24, 45-46.]

IO Watch concludes that the UN, despite a decade of "investigative" activity by the OIOS, has performed poorly against this basic "robust" fraud prevention strategy or in fact against any other, as discussed in detail in earlier subsections of this archive:

(1) basic internal controls are rather vague and "iffy" and OIOS has better things to do;

(2) UN Member States and the public can read some "fraud-catching" stories from OIOS each year, but no systematic reporting on fraud efforts, results, and sanctions;

(3) There has been no internal fraud education effort -- the emphasis instead has been put on an "integrity initiative";

(4) fraud has been kept firmly "in the closet" with no emphasis or discussion of organization-wide activities;

(5) Employee reporting is mistrusted, often discarded by an understaffed investigations unit, and whistleblowers are

rare indeed;

(6) almost no one, and certainly not managers, are ever sent to court or prison, thanks to UN diplomatic immunity from national laws;

(7) the UN "code of conduct" is a "phone-book" of punitive rules, and senior management leadership to seriously fight fraud is almost non-existent.

The "Thornburgh report" of 1993 identified fraud and abuse as grave UN problems which only a forceful new inspector-general could take care of. However, Karl Pashke, the first incumbent, quickly disparaged whistleblowers, said that fraud was "not the main concern" of OIOS, and emphasized many times the OIOS "partnership" with managers rather than diligent oversight (as has his successor, Dileep Nair), including and even encouraging them to make amateurish "investigations" in their units on their own.

The OIOS investigations unit started slowly, has always been understaffed, rejects most reports made to it, and has done very poor annual reporting on its overall and fraud investigations, patterns, and results. Instead, it has made UN anti-corruption efforts a mysterious, expert "cult process" with a few "crime-busting stories" each year provided by a "black box" unit in which only they know what is really going on.

Why have things gone so wrong? Six underlying factors appear to have been pivotal:

- appointing two diplomats, rather than top-quality audit professionals, to lead the OIOS;
- Member states' failure to properly use and "oversee the overseer";
- OIOS' almost total failure to investigate managerial misconduct and abuse of authority;
- Secretariat inability to promptly and fairly prosecute and apply sanctions (some staff get caught, but managers, especially senior ones, seem never to be touched);
- reliance on a diplomatic culture (the "old boy" club") instead of a strong figure dedicated to independent investigation, accountability, and sanctions where necessary, no matter who is involved;
- most importantly, Secretary-General Annan's

declaration of "victory" in installing accountability system "building blocks" in 2000, without ever demonstrating their application, and -- instead -- freeing managers drastically from prior organizational controls and monitoring.

In 2004 two very serious negative results of this superficial UN "fraud-fighting" effort emerged. First, a multi-billion dollar scandal in the UN-administered Iraq oil-for-food programme reflects quite negatively on the Secretariat, the OIOS, and the Security Council, and clearly weakens UN operational credibility.

Second, the June 2004 "integrity survey" of UN staff found them to be much more concerned with accountability shortcomings in a weak management culture than with integrity matters, as reflected in mistrust of the "old boy" senior leadership, fear of retaliation for reporting mismanagement, and perceptions of a distinct lack of UN response to corruption reports.

See, under Other Major Problems , the subsections on Iraq oil-for-food programme and Management culture deterioration : for the survey, see Warren Hoge, "Report criticizes the way UN fights corruption", International Herald Tribune, **June 16, 2004**,

Claudia Rosett, "The problem with the Secretariat", The Wall Street Journal, **June 16, 2004**.

and the actual survey document is

"United Nations organizational integrity survey", Final Report, prepared by Deloitte Consulting LLP, **June 2004**.

[Can the more than 6,000 staff worldwide who responded to this survey be wrong about this anti-integrity bias of the UN leadership?

It is also interesting to note, in comparing this 2004 survey with one done in 1995 that things have indeed gone downhill -- staff in both surveys sought better management, but in 2004, after a decade of "reform", they are much more concerned with senior management accountability issues and processes.]

Based on its analysis in this archive, IO Watch believes that there are eleven important elements which underscore the urgent need for, and can be critical to the success of, a strong UN fraud prevention programme for the future

FIRST, and most importantly, the UN is not aggressively addressing and preventing waste and abuse. Based on an extensive study and experience, the ACFE estimated in 2002 that fraud costs organizations up to 6 percent of their revenues each year: for the UN, spending from \$6 to \$10 billion, this implies potential cost savings of up to \$360 million to \$600 million dollars per year (the UN should indeed be near to the maximum level of 6 percent, given the high-risk nature of its global emergency operations in distant field locations and its lack of internal

controls and accountability.

Report to the nation on occupational fraud and abuse, ACFE, 2002, see www.cfenet.com/home.asp

The OIOS reports proudly that it has exposed waste and fraud of \$306 million since 1995, and has recovered and saved \$157 million of that. In that period, however, it cost about \$153 million to operate the OIOS at \$17 million per year. This indicates net OIOS cost recoveries and savings of minus \$3 million over nine years. This is poor for what should be an essential money-saving organizational function, and a mere drop in the ocean against the potential levels of \$360 to \$600 million of UN funds lost each year to fraud as estimated above. This also does not include the billions of dollars of humanitarian aid that failed to reach Iraqis under the UN-administered Oil-for-Food programme.

At www.un.org/Depts/oios/achievements

Why is it this way? Because OIOS has chosen not to fight corruption, but instead to serve management, "improve" management processes, and pursue integrity -- which was NOT the key new task given it at its creation in 1994. As of September 2003, OIOS had 35 investigator posts (each responsible for covering \$170 to \$285 million of the aforementioned \$6 to \$10 billion of total UN expenditures.) IO Watch believes that a serious anti-fraud campaign to stop this hemorrhaging of Member State funds entrusted to the UN must begin by at least doubling OIOS professional investigations staff, or more (and ensuring that they are highly-trained and experienced people), either through shifting internal audit posts or from new sources of funds, whether budgeted or extrabudgetary.

"Report of the OIOS", UN document A/58/364, 2003, p. 59.

SECOND, and almost as serious, is the gross gap in OIOS enforcement and oversight efforts, and subsequent Administration sanctions, that should systematically root out misconduct, mismanagement, waste, and abuse in the UN (which is primarily committed by managers, who have the power and the resources to most easily engage in these improprieties.) The tough UN rule, for instance, that "Any form of discrimination or harassment ... or abuse ... at the workplace ... is prohibited" is meaningless in practice. There seems to be no record of significant OIOS action ever on these matters (except for Mr. Paschke's failed "friends and lovers" effort of the mid-1990s.) The JAB and UNAT in the "internal justice" system also blissfully ignore almost all these issues, and the new Ombudsman is one small, weak, and unproven new office purportedly "supporting" some 40,000 UN staff.

UN Staff Rule 101.2, Specific instances of prohibited conduct, part (d).

In April 1996, the OIOS issued an encouraging and important Information Circular to all UN staff on its investigation work. It identified four categories of activities that staff could report to the OIOS:

"Misconduct ...

Activities that would constitute a failure to maintain the highest standards of integrity include, for example ...

(a) Any wilful and unwarranted disregard of ... [UN legislative mandates or ... [rules] and any failure to exercise proper care that is either intended to result in personal benefit or misappropriation of ... [UN] resources;

(b) Any act, for example any type of false certification ... [of benefit claims], which demonstrates a failure to maintain the highest standards of integrity required by the [UN] Charter ... as well as any [misleading statement] resulting in the misappropriation of ... [UN] resources.

Unsatisfactory performance

... [staff performance in accordance with [the UN Charter's call for] 'the highest standards of efficiency [and] competence', including the following:

(a) **Mismanagement**, includes, for example,

(i) Any unreasonable failure of a staff member to perform [efficiently and competently]... all assigned tasks, duties and management responsibilities; ...

(b) **Waste of resources** includes, for example

(i) Any unreasonable failure of a staff member to ensure that [UN] resources are used ... solely, efficiently, and effectively for [UN purposes or for its benefit];

(ii) Any unreasonable act or failure to act which, as a direct result of a failure to exercise due care, causes loss to the organization;

(c) **Abuse of authority** includes for example, any discharge of management responsibilities and any act or failure to act, which is not motivated by the interests or purposes of the UN."

"Terms of reference for investigations by the [OIOS]: Mismanagement, misconduct, waste of resources and abuse of authority", ST/IC/1996/29 of 25 April 1996, paras. 6-7.

This guidance might seem lengthy, but it is all quite specific about improper behaviour. However, ever since 1996, this circular has led to a fundamental betrayal of staff reporting problems, and a full protection for UN managers. Many of the above items may be small-scale and not "high crimes", but bad UN managers routinely practice many or all of them, crippling their programmes and destroying staff morale.

When UN staff report these problems, OIOS investigators brush them aside as low-priority "personnel" matters in the midst of a flood of staff reports of wrongdoing. The net result is a tremendous gap in UN enforcement, and any sanctions for corrupt behaviour, which most definitely includes "evasion of accountability, and the abuse of authority." These matters seem to be the primary categories of the hundreds of reports to the OIOS confidential hotline which are "filed" in the wastebasket

or, worse, sent to Personnel, where they can cause much trouble for the staff member who reported them.

[The expanded corruption definition is from William L. Richter, Frances Burke, and Jameson W. Doig, eds., Combating corruption, Encouraging ethics: A sourcebook for public service ethics, American Society for Public Administration, Washington, DC, 1990, Preface.]

An ACFE journal article in 2004 stated that professional fraud hotlines (manned by live, trained interviewers, and available outside working hours, when most people want to call) can cut fraud losses by 50 percent, and that the most common method of fraud detection is in fact that which comes from employees, customers, and anonymous sources.

The OIOS hotline does not operate in this way (or achieve such results), because it ignores the key mismanagement, misconduct and abuse issues that UN staff attempt to report.) The solution? The UN urgently needs a professional hotline service to fight fraud, protect staff rights, and deal firmly and reliably with misconduct and abuse of authority. The ACFE article elucidates this situation with its list of concerns reported to the ACFE professional hotline service during most of 2003:

"Top ten concerns reported to Ethics line [i.e., confidentially by telephone]

- Theft: 22 percent
- Discrimination: 16.1 percent
- Wage discrepancies: 13 percent
- Sexual harassment: 5.8 percent
- Customer relations: 5.7 percent
- Employee relations: 5.0 percent
- Workplace violence: 4.9 percent
- Fraud: 4.8 percent
- Safety concerns: 4.7 percent
- Falsification of records: 4.4 percent."

Tony Malone, "Best practices for ethics hotlines", The White Paper, ACFE, January/February 2004, pp. 39-41.

The entire contents of this IO Watch archive on UN management accountability, buttressed by the opinions of the 6,000 UN staff who responded to the UN "integrity survey" of June 2004, point to one fundamental conclusion:

The UN Secretariat's senior leaders and its OIOS can never achieve an accountable UN, and meet the integrity standards of the UN Charter, until they firmly abandon their complacent "boys will be boys" attitudes about incompetent and abusive UN managers, and respond to conscientious staff reports with serious inquiries and proper sanctions (instead of ignoring or suppressing them, as at present.)

THIRD, the only bright spot in UN corruption-fighting -- because it is the only truly independent and professional unit -- was and is the UN Board of (external) Auditors, and the system-side Panel of External Auditors of the UN system. The General Assembly regularly debates and follows up on the external auditors' work, and has emphasized its "fraud fighting" efforts in some strong resolutions, especially in 1997. And while the rest of the UN, and especially the OIOS, plays with some investigation "stories" in its annual reports, the Auditors, in contrast, issued a simple, straight-forward, and excellent guide on "Fraud awareness" to all UN agencies and their senior officials almost a decade ago, in 1996.

"Financial reports and audited financial statements, and reports of the Board of Auditors," General Assembly resolution 51/225 of **16 May 1997**, and "Fraud awareness", Audit Guide 204, United Nations, adopted by the Panel of External Auditors of the United Nations, the specialized agencies and the IAEA, December 1996.

The auditors' strength is that they are all professionals, almost all on shorter-term assignments from their national audit services. Moreover, they are united through The International Organization of Supreme Audit Institutions (INTOSAI), a long-established professional group with members who are employees of national audit groups in over 170 countries. INTOSAI provides extensive programmes and cooperative activities. INTOSAI members know the UN system and each other very well: a changing group of national auditors provide external auditors for all the UN system organizations, in accord with the best professional practices. Recent INTOSAI professional efforts as a group have analysed key factors in the audit of international institutions, and such key issues as human resources management.

"International Organization of Supreme Audit Institutions" (INTOSAI), at www.intosai.org , "INTOSAI - An overview."

[Note: The Panel's current members are South Africa (Chairman), Canada, the United Kingdom, Switzerland, France, the Phillipines, and India., and its website is at www.unsystem.org/auditors/external.htm]

The auditors' main weakness is that they are only part-time and underutilized, with more emphasis going to the process whereby diplomats can pick up high-pay, low-work, prestigious jobs as the head of the OIOS and as JIU Inspectors. IO Watch thinks that the external auditors must play a central and expanded role in creating professional, independent, and effective oversight in the UN system , as discussed further in the following subsection on External experts oversight review.

FOURTH, (and as somewhat of a midpoint pause), this entire archive and the above quotes demonstrate that the UN urgently needs to undertake a serious, comprehensive, and robust fraud prevention programme. The pressure for stronger oversight led to creation of the OIOS in 1994, but its actual priorities have been elsewhere. As this suggests, and as the sad past and muddled current role of OHRM indicate as well, these internal units are not trustworthy agents of monitoring and oversight. With proper and strong leadership, and adequate and highly-professional investigative staffing, however, the OIOS could become an important cornerstone of UN fraud prevention work to develop an active, credible, public, and systematic anti-fraud programme, by reducing the "services" nature of its work in favor of a much stronger accountability-assurance and fraud-prevention emphasis.

Real fraud-fighting is indeed still *terra incognita* in the UN, but it goes way back elsewhere, as shown by the elements identified in an article a quarter of a century ago in the United States. It is finally time for the UN to get on board, not with more rhetoric and independent inquiries into new operational failures like the Iraq Oil-for-Food programme, but with a strong investigations section in the OIOS, concentrating on the following very reasonable approach:

"Fifteen [US] Federal departments have received a legislative mandate to detect and prevent fraud, waste, abuse, and mismanagement in their programs and operations ... in the Inspector General Act of 1978. ...

... now auditors are charged with developing an entire mind set where fraud and abuse are paramount considerations in even their routine operations. ...

The ... fraud prevention and detection program consists of three concurrent initiatives ...

First ... an awareness effort ... to inform [people] of the mission of the [IG Office]; and to highlight typical fraud situations ...

[Second] ... audits consider the possibility of fraud in any ... areas to be reviewed ... [and] special emphasis audits ... look for control [and other] weaknesses ...

[Third] ... special studies and vulnerability assessments ... which are proactive and preventive ... and a [systematic] plan ...

A very good source ... [for detecting fraud] is to cultivate a supportive attitude by the entire work force. Special requests and referrals from dedicated and informed employees greatly enhance the likelihood of detection. This, of course, requires an active public relations effort and a demonstrated record of timely, responsive, and quality service on the part of the [IG Office.]"

Ronald Keefer, "'Luck' in fraud prevention," The Bureaucrat (USA), **Fall 1981**, pp. 46-49.

FIFTH, it is a well-known management principle that for any organization to change an entrenched culture, senior executives must very publicly take the lead to implement a determined long-range programme. The UN, however, has downplayed fraud and accountability issues and actions for the past decade.

Yet recent decisive events, such as the UN staff doubts about accountability expressed in the integrity survey of June 2004, the security mismanagement in the Baghdad headquarters bombing of 2003, and the Iraq oil-for-food scandal (which will not leave the headlines for a few years to come, another sign of the UN-versus-Enron comparison that IO Watch has made) all indicate that the UN cannot ignore a serious fraud prevention campaign any longer.

As "the chief administrative officer of the Organization" (under Article 97 of the UN Charter), however unglamorous and that role may be relative to world diplomacy, Secretary-General Annan must finally demonstrate that the 21st century UN can demonstrate (in the best Global Compact spirit, and as its new tenth principle requires) that it is accountable and does fight corruption systematically and firmly. He is guided in this task, as his predecessor Mr. Boutros Boutros-Ghali stated in one of his 1992 (pre-OIOS) reports to the General Assembly, by some basic (but stubbornly ignored) UN operating principles:

"United Nations staff members [especially managers in administration and finance] ... are required to report to senior management any inappropriate uses of [UN resources]. ... ample provision exists [in the Staff Rules and Financial Rules] for assigning personal responsibility ... for any financial loss incurred ... Such provisions ... have been invoked when required ... [and] serve as a deterrent to the potential misuse of [UN resources.]

The matter will, however, be kept under active review. Should developments warrant in the future, ,, additional measures would be reconsidered and the General Assembly would be so informed.

The Secretary-General attaches great importance to his fiduciary responsibility vis-à-vis Member States for the prudent management of resources entrusted to the Organization. Care is taken to ensure that these resources are utilized for the purposes for which they were provided, that they are spent with all due regard for economy and that there is accountability at all stages for their use."

"Measures to facilitate reporting by staff members of inappropriate uses of the resources of the organization: : Report of the Secretary-General", UN document A/47/510 of **October 8, 1992**, paras. 9-14. [emphasis added]

SIXTH, Mr. Annan should be further motivated in this task by the conclusions of another decade-old document, the Thornburgh report of 1993, and a concurrent document on the future financing of the UN, that:

"Fraud, waste and abuse"

The United Nations presently is almost totally lacking in effective means to deal with fraud, waste and abuse by staff members of the type which has so recently been highlighted in the reports of audit agencies and in the news media. ...

[Reform is] especially crucial given the mounting concern of major contributing Member States over the rising level of [UN] expenditures ... in nearly every area. **As noted in the Volcker-Ogata report, 'support for improved financing will be dependent**

upon a perception that funds are economically managed and effectively spent.' Major donors, and indeed all Member States, deserve the reassurance that ... their contributions are being wisely and prudently utilized [which they can then convey] to their taxpayers, the ultimate supporters of all United Nations activity.

This reassurance can only come ... from the prompt and effective activation of a strong [UN] Inspector General's office along the lines I have previously suggested."

Dick Thornburgh, Under-Secretary-General for Administration and Management, "Report to the Secretary-General of the United Nations" ["The Thornburgh report"], **1 March 1993**, pp. 29-31. [emphasis added]

[The report referred to is Financing an effective United Nations: Report of the Independent Advisory Group on UN financing, The Ford Foundation, New York, 1993.

[Note: Mr. Paul Volcker has returned to the UN scene again, as the head of the current panel investigating the Iraq oil-for-food programme scandal.]

SEVENTH, because the UN accountability and managerial impunity problems have entrenched themselves so deeply into the UN since 1945, some drastic actions will be needed to overcome them. An excellent analysis of reform needs of the UN's New York City neighbors, the city school custodians, was made by Lydia Segal in 2002. She noted three minimal reform tasks (with the second the toughest to implement in the "good old boy" UN), all of which must become part of the UN's fraud prevention strategy, instead of just another grand independent panel and more cosmetic, and ineffective, reform efforts:

"One of the most perplexing problems in public administration today [is] *how to reform chronically corrupt agencies ... [in this case] the New York City school custodial system ... that has resisted decades of reform efforts. ...*

... traditional corruption controls do not allow for organizations whose cultures are so deviant and whose missions have become so twisted that managers can barely recognize conduct that is deviant and employees regard wrongdoing as their right. ...

[Success elsewhere, in Chicago!] suggests ... **three broad reform strategies**. The **first is to launch tough, publicized law enforcement initiatives** that include investigations, compliance and fraud audits, and punishment for wrongdoers. ... welcoming outside prosecutors ... can be crucial to changing a deeply deviant culture. ...

The **second strategy is to oust as much of the dominant coalition as possible**, not just the top layers, and any work rules that block reform. ...

The **third strategy is to hold managers accountable for performance ... and to provide meaningful consequences for failure**. ...

Without such minimal reform strategies, merely tightening existing controls, issuing more rules or instituting shallow reorganizations in chronically corrupt agencies will merely create the illusion of change without the reality."

Lydia Segal, "Roadblocks in reforming corrupt agencies: The case of the New York City school custodians", Public Administration Review, **July/August 2002**, vol. 62, No. 4, pp. 445-460 [445, 456-457.] [emphasis added.]

[Note Ms. Segal is now the author of a book, with James B. Jacobs, on this topic, Battling corruption in America's public schools, Northwestern University, 2003.

EIGHTH, much of the answer must be found in supporting the "cops", particularly at the UN enters an Iraq oil-for-food

programme scandal and investigation process, which will probably run on in some form in the media for several years to come. As another recent article by Geoffrey Colvin succinctly puts it:

"A screwup so egregious you couldn't have imagined it does incalculable harm in a giant enterprise -- we've seen it before. Managerial failures this mammoth are all different, but in a way they're all the same.

The great common feature they all share is the compromising of the police. That may sound odd in a corporate context, but it shouldn't. ...

In companies the police are just as important but have a different name. They're the auditors, part of the finance organization. When anything impedes the police, or even interferes with their incentives to do the one thing that they're supposed to do -- enforce the rules -- trouble follows. The only question is how bad it will be. ...

True disasters always require that many things go wrong at once. But the big lesson is one that proclaims itself often when organizations damage themselves terribly: **Your police have one job, and you'd better let them do it, make them do it, and not ever compromise them.**"

Geoffrey Colvin, "Why companies and countries need good cops," Fortune Europe, May 31, 2004, p. 32.

The UN still needs "good cops" who will work hard and with a high priority to develop and implement a strong fraud prevention programme. In IO Watch's opinion, the General Assembly must make clear that the Secretariat must now act, and reaffirm the determination that it expressed in 1993 and again in 1997 that the UN's limited resources not be wasted:

"The General Assembly

III. ... **Determined to address alleged cases of fraud in the United Nations in an impartial manner, in accordance with due process of law and full respect for the rights of each individual...**"

"Review of the administrative and financial functioning of the United Nations", General Assembly resolution 48/218 A, 23 December 1993, sections II. And III.

"The General Assembly, ...

Expressing deep concern about the persistence of problems and defects observed by the Board of Auditors in the financial administration and management of the United Nations;

...

11. **Notes with deep concern the incidents of fraud and presumed fraud reported by the Board of Auditors;**

12. **Requests the Secretary-General and the executive heads ... to take the disciplinary actions necessary in cases of proven fraud and to enhance the individual accountability of United Nations personnel, including through stronger managerial control; ...**"

"Financial reports and audited financial statements, and reports of the Board of Auditors," General Assembly resolution 51/225 of 16 May 1997.

NINTH, while one hopes for "good cops", who are allowed to do their job of upholding the law, one also hopes that the "robbers" will "get theirs." Mr. Colvin has most recently

written about the tough fate awaiting top corporate officials who go badly wrong. A tremendous discrepancy, however exists, as for instance at the recent UN Global Compact grand summit in New York. Corporate attendees can now go to jail for serious organizational and individual failures. Their senior UN hosts, however, have spent their adult lives with little involvement in the unpleasanties of life -- such as paying taxes, or struggling through customs at airports, or being subject to trial in a civil or criminal court of law -- that face "normal folk". UN officials actually feel that "severe punishment" would be a forced early retirement on a very handsome UN pension, with perhaps some subsequent, well-paid, UN consulting work thrown in.

" ... the issue of prison time for our era's famous white-collar criminals is finally advancing, you might say, from the theoretical to the concrete. ... Lea Fastow [of Enron] asked to serve her one-year sentence at a minimum security camp but instead was scheduled for ... the Federal Detention Center in Houston, where she'll spend her days alongside various killers, crack dealers, and thugs. ...

[Eric Stein, 45] knew he might get caught ... but he and his associates thought if they limited the [fraud size] ... any eventual prison sentence would be minimal and they'd spend [it] ... 'someplace elegant where we'd play golf and go swimming.' But they were mistaken.

Instead of a wrist slap, Stein got an eight-year sentence and soon learned Club Fed no longer exists. ...

The grim reality of prison life for today's white-collar criminal -- the utter absence of privacy, the body-cavity strip searches, standing in line 90 minutes, much of it outdoors in any weather, to get unspeakable food -- is definitely worse than they or the public expect.

Stein's message to the outside world is simple. 'If you are considering committing a financial crime, do not do it.'

Geoffrey Colvin, "White-collar crooks have no idea what they're in for", Fortune International, July 26, 2004, p. 30.

TENTH, in 2004, the external UN Board of Auditors, the only professional oversight group in the UN, made a strong recommendation in its annual report to the General Assembly, directed toward the Administration, which reemphasized the fraud-fighting processes that it had urged ever since 1996 (see the third item above):

"Fraud awareness, prevention plan and policy

... The United Nations has, to some extent, an established framework on this issue. However, in terms of implementation, it did not have a comprehensive internal anti-fraud and anti-corruption infrastructure, and did not include anti-corruption and anti-fraud elements in the various rules, procedures and internal controls, which means that such internal risks may not be properly addressed. ...

Owing to the lack of a comprehensive internal fraud plan, a large number of United Nations system offices, funds and programmes have:

- (a) No sufficient framework for prevention, detection, resolution, and reporting;
- (b) No decentralized corruption and fraud risk-assessment mechanisms and no corruption and fraud-prevention committee;
- (c) No appropriate resolution mechanisms for reported and detected incidents and allegations of corruption and fraud (although reliance is placed on the [OIOS] in this

regard."

"Financial reports and audited financial statements for the biennium ended 31 December 2003 and Report of the Board of Auditors", Vol. I, UN document A/59/5 of **22 July 2004**, p. 12, item (u), paras. 15(s) and 344-346.
[emphasis added]

"The Board [of Auditors] recommends that the Administration (i) implement a comprehensive and well-communicated corruption and fraud prevention plan in the United Nations system, (ii) establish a corruption and fraud prevention committee that would serve as an effective framework and coordination point for a United Nations system corruption and fraud prevention mechanism, (iii) conduct ethics, corruption and fraud-awareness training sessions and workshops among managers, international and local employees and other stakeholders, (iv) develop appropriate resolution mechanisms for reported and detected incidents and allegations of corruption and fraud, and (v) review the investigation processes at Offices away from Headquarters."

"Financial reports and audited financial statements for the biennium ended 31 December 2003 and Report of the Board of Auditors", Vol. I, UN document A/59/5 of **22 July 2004**, p. 12, item (u), paras. 15(s) and 349.

The UN Secretariat, however, quickly brushed aside this recommendation, burying it deep within a subsequent Secretary-General's report. Noting that it agreed with the Board's recommendation and overall concerns concerning fraud, presumptive fraud, and allegations of corruption, it then stated superciliously that:

"However, some of the Board's comments may give the mistaken impression to the uninitiated reader that the potential for large-scale fraudulent and corrupted activities is widespread. The Administration assigns high priority to the issues of fraud and corruption and several mechanisms for addressing them are embodied in the Financial Regulations and Rules of the Organization and in established procedures that are all geared towards ensuring adequate internal controls to minimize such occurrences.

The Under-Secretary for Management is responsible for the implementation of the recommendation."

"First report on the implementation of the recommendations of the Board of Auditors ... for the financial period ended 31 December 2003: Report of the Secretary General", UN document A/59/318 of **1 September 2004**, paras. 124-126. [emphasis added]

ELEVENTH and finally, further good advice on plans to fight fraud in organizations worldwide has been developed as a composite model from work done by professional groups in the U.S., Australia, and the United Kingdom. The plan's central tenets have particular and obvious relevance to a UN beleaguered in 2004 and beyond by a multi-billion dollar scandal in the UN-administered Iraq oil-for-food programme and other major performance problems:

"Every organization should possess an integrated strategy for fraud prevention

and control in order to draw all elements of the strategy together to form a holistic and complementary raft of fraud countermeasures. **Those organizations with an integrated strategy are less likely to suffer catastrophic losses from fraud than those without.**

"COMPOSITE MODEL WORKS FOR ANY ENTITY

Effective fraud management strategies will:

- aid fraud prevention;
- act as a deterrent;
- increase the likelihood of disruption;
- aid the identification of high risk and problematic areas of business; and
- reduce the need for civil action or criminal prosecution."

David Cafferty, "Global composite model: A plan to detect and prevent fraud worldwide", White Paper, ACFE, **November/December 2003**, pp. 22-25, 45-47, [25, 47.] [emphasis added]

In 2005, the UN leadership (and the General Assembly) must move far beyond mere noble talk about fighting corruption (the UN Convention Against Corruption) for others. Instead, they must act decisively to install such a system to safeguard the \$6-\$10 billion of public funds that the UN spends each year in its operations worldwide.

Further, however, the UN will never begin to have a real fraud prevention system until some UN senior officials join the professional and clerical UN staff who have been sent to national courts in recent years and convicted on criminal charges. Such a development, and full information on it and the process and anti-corruption efforts involved, would do marvels for creating a true management accountability culture from the top of the UN hierarchy on down.

In 2005 the corporate sector, which the UN attempts to lead in ethical behaviour with its Global Compact (already mentioned above), is in fact recently beginning to do far, far better in fighting corruption, fraud, and mismanagement than the UN's feeble anti-corruption efforts, as shown by a recent news article.

"BP sacked 252 people last year as part of a drive by the world's second biggest oil company to weed out bribery and corruption.

In its annual report on environmental sustainability, social responsibility and corporate governance, the company blamed the 50 percent yearly rise in sackings for 'unethical behaviour' on theft, fraud and harassment.

Lord Browne, chief executive said 'Human ingenuity will always find something to get up to. It is our job to track it down.'

BP has established a new team to govern legal compliance and business ethics across the group after the spate of high-profile scandals over the past few years.

It said in the report: ... 'Very clear rules on business relationships are essential when there is any scope for bribery or fraud in dealing with suppliers or governments. ...

BP is introducing a company-wide code of conduct and measures such as forcing staff to disclose gifts worth more than \$50.

Lord Browne did not provide details on the investigation into last month's explosion at BP's Texas refinery, which killed 15 people. He said the tragedy was a 'forcible reminder' that BP needed to 'learn from our imperfections.'

James Boxell and Fiona Harvey, "BP sacked 252 for unethical behaviour", Financial Times (UK), **April 12, 2005**.

[Note: the BP sustainability report is available for viewing on its website at www.bp.com/home. The UN, of course, has no reporting that is remotely comparable, especially on people fired by year. The comparative score for the year 2004 for these two huge global organizations? BP - 252 people fired. UN - apparently 0 (despite its "annus horribilis" in 2004, and continuing).]

In May 2005 the UN Secretariat released a new management reform document for "real action now" and immediate reform, "particularly in the critical areas of management, oversight and accountability." More specifically, it stated that:

"Perhaps the most obvious shortcomings identified by the Volcker Inquiry and other crises are in the area of oversight and accountability. **The current 'control' systems for monitoring management performance and preventing fraud and corruption are insufficient and must be significantly enhanced.**"

"UN management reforms 2005: Management reform measures to strengthen accountability, ethical conduct and management performance", **May 17, 2005**, pp. 2-3, available at www.un.org/reform_update.html.

The 2005 reform document announced an "Enhanced Anti-Fraud and Corruption Policy", asserting that:

"The UN already has in place various disparate rules and policies designed to prevent fraud and corruption. However, following a recommendation of the UN's external auditors, it is now consolidating them into a stand-alone, comprehensive anti-fraud and corruption policy. The policy will draw on existing best practices, including the model recently developed by the World Bank.

Status: The UN Controller is leading a working group to draft the policy. As interim report will be ready by June with the final policy scheduled for completion in September."

"UN management reforms 2005: Management reform measures to strengthen accountability, ethical conduct and management performance", **May 17, 2005**, p. 3, available at www.un.org/reform_update.html.

The Secretariat's characterization of the situation certainly fails to capture the Auditors' very critical assessment and analysis of the state of UN anti-fraud preparedness (see the quotes of 22 July 2004 above), but at least it has now been forced by the oil-for-food debacle to discard the arrogant and snuffy initial Secretariat reaction that an uninformed reader might think the UN has serious fraud problems.

Similarly, the "old boys'" usual formula of preparing a policy in an area where they have performed poorly is doubly

unfortunate here. One could only hope that at some point they will call in experts (and staff!) from the worldwide network of the ACFE (as discussed above). One must also remember that the UN loves to formulate "a policy", but here as elsewhere that is only the beginning. The Secretariat must then establish the units, frameworks, procedures, and policies to firmly implement a strong anti-fraud programme to protect the \$10 billion of yearly UN field programmes worldwide from future depredations such as the Iraq oil-for-food programme and other scandals.