

WFP Operations in Yemen – Desk Review of the Implemented Agreed Actions from the 2016 Internal Audit

Office of the Inspector General



World Food Programme

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I. Executive Summary

Introduction

1. The Office of Internal Audit conducted a desk review of the implementation of the actions agreed to address observations made in an internal audit report on the WFP Yemen Operation (AR/16/13) issued to WFP Management by the Office of the Inspector General in November 2016 as a part of the 2016 WFP internal audit work plan.

2. As part of its annual work plan for 2016, the Office of Internal Audit conducted an audit of WFP Operations in Yemen. Based on the results of the audit, and with consideration of the context of the country, the Office of Internal Audit came to an overall conclusion of unsatisfactory, i.e. internal controls, governance and risk management practices were either not established or not functioning well and some issues identified were such that the achievement of the overall objectives of the Yemen Operation could be compromised. The audit report made five high-risk and six medium-risk observations. Three of the agreed actions were addressed to the Corporate Response Director and the Regional Bureau in Cairo, the others to the Yemen Country Office. Management agreed to implement 43 actions to address the observations, with 33 of the agreed actions due to be implemented by 31 December 2016, with the others during 2017.

3. The desk review is at the request of WFP Management and is an assessment of the measures taken by Management to address internal control weaknesses in line with the agreed actions as at 5 February 2017.

4. The review took place in WFP Headquarters, in Rome, Italy, from 16 January to 3 February 2017. The work was based on enquiry with key personnel, analysis of supporting documentation, and inspection of relevant records. The desk review was carried out in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors.

5. A follow-up audit in-country is scheduled for later in 2017 as per the Office of Internal Audit work plan.

Overview

6. The 2016 audit identified 11 observations and Management agreed to implement these in 43 defined actions. The Office of Internal Audit reviewed the actions undertaken by Management since the issuance of the audit report in November 2016 and has concluded that:

- (a) Thirty-five actions, representing 81 percent of the actions due by 30 June 2017, have been implemented and verified as closed. Five of these actions have been implemented before the due date disclosed in the audit report.
- (b) With consideration of agreed actions due end of January only, the rate of implementation is 91 percent.

- (c) The review also noted progress on the implementation of the remaining eight agreed actions.

7. The review confirmed progress in the implementation of agreed actions for the high-risk observations. Four out of five high-risk observations have been closed. Of the high-risk observation remaining open, 50 percent of the actions due at the time of the desk review have also been verified as closed.

8. Four out of the six medium-risk observations have been implemented and verified as closed and the remaining actions are either under finalization or not yet due.

9. Details of observations, actions taken and the Office of Internal Audit's conclusions are provided in Tables 1 and 2.

10. The Office of Internal Audit would like to thank managers and staff for the assistance and cooperation accorded during the desk review.

II. Context and Scope

Yemen

11. In March 2015, Yemen's conflict escalated into a full nationwide conflict involving international military intervention, disrupting the regular supply of food, with serious implications for its vulnerability and food insecurity levels. According to the 2016 Integrated Food Security Phase Classification (IPC), 9 out of 22 governorates and 7 million individuals were under emergency (IPC phase 4). Ten governorates and 7.1 million individuals were under crisis (IPC phase 3).

WFP Operation in Yemen

12. Following the escalation of the conflict, WFP activated a Level 3 (L3) corporate emergency response on 3 July 2015.

13. WFP's direct expenses in Yemen in 2015 totalled USD 367 million, representing 7.8 percent of WFP's total direct expenses for the year. Six projects were ongoing during the period covered by the audit - Emergency Operation (EMOP) 200890 (2015-2016), Protracted Relief and Recovery Operations (PRROs) 200305 (2013-2015) and 200636 (2014-2015), and Special Operations 200798 (2015), 200841 (2015-2016) and 200845 (2015-2016) - with a revised budget of approximately USD 1.2 billion and funds received of USD 0.7 billion as at June 2016 - a shortfall of 40 percent.

14. In April 2016, the Yemen Operation comprised 277 staff (228 national and 49 international) located in six offices (one Country Office (CO), three Sub Offices (SOs), and two hubs in Djibouti and Amman).

15. The desk review took place in WFP Headquarters (HQ), in Rome, Italy, from 16 January to 3 February 2017.

Objective and scope of the Desk Review

16. The objective of the desk review was to determine the extent to which the actions agreed with Management and disclosed in the 2016 audit report had been implemented and the effectiveness of actions taken.

17. The desk review involved verifying available documentation supporting implementation of the agreed actions. The verifications depend on the auditor's professional judgment as well as designing audit procedures that are appropriate in the circumstances. These aimed at assessing formal progress of implementation of the agreed actions, as defined in the audit report. Audit work was not designed for the purpose of expressing an opinion on the effectiveness of the CO and its operations' internal control.

18. The implementation of agreed actions was verified through the Office of Internal Audit's system for the monitoring of the implementation of agreed actions. Through this system the Office of Internal Audit tracks all medium and high-risk observations to ensure management actions are effectively implemented within the agreed timeframe so as to manage and mitigate the associated risks identified, thereby contributing to the improvement of WFP's operations.



III. Results of the desk review

Table 1: High risk observations

Audit Report Observation	
1	<p>Internal environment/Risk management - Set-up of the (L3) emergency and risk management.</p> <p>The attendance to the meetings of the Operational Task Force (OTF), responsible for “corporate-level operational decision-making and for providing a common operational analysis, coordinating among the various functional areas to address operational issues”, was not in line with the protocol, with multiple actors either not participating or not represented at the required managerial level. This may have impacted the organization’s capacity to provide adequate corporate support and solutions to the operation. Operational analysis was not consistently performed to identify and/or address issues and risks, including lack of capacity assessment of partners, or lack of documentation thereof, to support relative selection. The audit noted insufficient analysis to guide engagement and activities implemented through third-party monitoring, or with public entities for the monitoring of beneficiary identification and registration of food distribution. There were no performance evaluations of Cooperating Partners (CPs) or Third Party Monitoring (TPM) service providers to guide and inform decision-making. For the new TPM tender, management informed the audit team that an evaluation was performed prior to the new tender launch as per procurement rules.</p> <p>During the emergency, risks have been identified in some ad hoc assessments at process level (for example, the procurement plan for the first half of 2016), as well as escalated and discussed at WFP HQ level, during the Strategic Task Force chaired by the Executive Director. However, these efforts did not translate into a comprehensive and consistent approach, nor were they reflected in/used to update the RR in a structured way.</p> <p>The CO had not completed the 2015 Risk Register (RR) and was preparing the RR 2016 in July 2016. Some data in the draft RR 2016 was not accurate and risks highlighted in/by other tools and/or noted during the audit had not been assessed/consolidated. Some actions appeared to be too general. Management informed us that the above aspects will be addressed in the mid-year review.</p> <p>The L3 emergency protocol appoints the Regional Director as Corporate Response Director (CRD). The activation memorandum created the position of a Deputy Emergency Coordinator (DEC) to “ensure backstop support” for the Country Director (CD). This was not paired with a clear definition of roles and responsibilities of the DEC or for other managerial roles in the CO to whom staff reported as per the performance assessment process. From April 2016, the DEC has been also re-assigned as Deputy Country Director (DCD) Operations. The Regional Bureau Cairo (RBC) role was also not clearly defined. RBC oversight included a few missions and support via complementary roles, for Procurement and Security.</p> <p>The emergency set up did not properly address the accountability of the Djibouti CO in the Yemen operations, the Djibouti CO Logistics corridor being outside the region and under the authority of the Ethiopia CO. The increased workload was remediated by temporary assignments and a staff review was launched by the Djibouti CO to address structural issues at the end of 2015. This also resulted in a significant cargo backlog and increased logistics costs (demurrages).</p> <p><u>Underlying cause:</u> Multiple L3 emergencies, resources being overstretched and management attention being over-extended. Corporate protocols for L3 emergency implementation and management were not adequately implemented, and/or responsibilities articulated. Lack of a structured process to identify and review risks and relative mitigating actions. Lack of guidance on and implementation of operational analysis and assessments (needs, capacity and performance assessment, cost-opportunity analysis and/or risk assessment) in support of operations.</p>

Agreed action(s)	Action undertaken by CO/RB	Conclusion
<p>(1) The CRD, using the Yemen emergency operations as a starting point, will liaise with HQ and Regional Bureau (RB) units as appropriate to:</p> <p>(a) Reinforce appropriate understanding of roles and responsibilities in the L3 emergency (for instance, further disseminating L3 rules to all relevant parties in the Yemen operations).</p> <p>(b) Assess the L3 protocol/regulations for set up effectiveness considering concurrent emergencies in the region and clarify roles and responsibilities at RB/HQ level.</p>	<p>Attendance at the three OTF meetings which took place since October 2016 improved in terms of participants at the managerial level. Full compliance with existing rules may not be feasible because of organisational and structural constraints.</p> <p>The Regional Bureau Cairo (RBC) reinforced its structure to allow for surge capacity. The December 2016 organigramme clarified roles and responsibilities within the framework of corporate regulations. A Deputy Regional Director was appointed to specifically oversee L2 and L3 emergencies. An RBC Country Desk Officer position for L2 and L3 countries/operations with the responsibility, amongst other duties, to facilitate the interface between the CO and RBC, and the interface and follow-up with the OTF was created effective January 2017.</p> <p><i>Office of Internal Audit (OIGA) comments: OIGA has agreed with Emergency Preparedness and Support Response Division (OSE) to conduct, in 2017, an advisory assignment focusing on the review of WFP emergency response mechanisms.</i></p>	<p>Closed</p>
<p>(2) The CO will:</p>		
<p>(a) Liaise with HQ units as appropriate to clarify the role of the DEC for current emergency and as a lesson learned for future emergencies.</p>	<p>The role of the DEC was established in a 2014 memo, indicating relative delegation of authority when the Emergency Coordinator is in the country and when he or she is not. The DEC for the Yemen Operation has also been appointed DCD - Operations, and operates under these Terms of Reference (TOR). The CO liaised with OSE to clarify the DEC role for the Yemen and future emergencies. Draft TOR and delegation of authority are available at HQ level for the Emergency Coordinator and will be reviewed by OSE as part of the review of the emergency protocol. This will represent a basis for clarifying the role of the DEC.</p> <p><i>OIGA comments: OIGA has agreed with OSE to conduct, in 2017, an advisory assignment focusing on the review of WFP emergency response mechanisms.</i></p>	<p>Closed</p>

Agreed action(s)	Action undertaken by CO/RB	Conclusion
(b) Formalize criteria and perform a capacity, risk and performance assessment of current implementing partners and assess availability and capacity of other potential partners to expand/diversify CPs pool.	The CO defined the criteria for assessing the performance of Cooperating Partners (CPs) and in December 2016 finalized a performance evaluation of CPs for General Food Distribution (GFD) and Nutrition which worked with WFP under 2016 Field Level Agreements (FLAs). The results represent the basis for validating existing relationships and reallocating future distribution cycles. Selection criteria for identifying potential new CPs and expand the CP portfolio for GFD and Nutrition have been developed.	Closed
(c) Finalize the 2016 RR, ensuring valid risks identified by different sources are assessed and reflected as appropriate, and specific mitigating actions are defined.	The CO finalized the risk register in November 2016.	Closed
(d) Perform a capacity assessment, cost-benefit analysis and a risk assessment of TPM service providers, including for the agreement with public entities. Assess their performance on a regular basis - at the least at the end of contractual agreement.	Following the audit visit, the CO finalized the contract with its current TPM service provider. The agreement with public entities for the provision of monitoring activities expired at the end of 2016 and the CO, after assessing provider performance, did not renew the agreement.	Closed
(e) Assess the current set up and anticipate future needs, in case Yemeni ports were to be under blockade again. Coordinate with RBC Units as appropriate.	In August 2016, the Logistic Cluster prepared an assessment of seven Yemeni ports in terms of capacity and available facilities. This will be used to identify possible alternatives to the ones currently in use. A contingency plan, including an analysis of WFP's needs, risks and alternatives in case one significant entry port became unavailable, was completed in January 2017.	Closed

Audit Report Observation		
2	<p>Programme management - Targeting, identification and registration of beneficiaries and management of distribution.</p> <p>The audit noted a lack of clarity in the allocation of distribution among partners: criteria not clearly defined and formalized; insufficient consideration of all costs incurred by the CO when almost doubling distribution to the CO major implementing partner, in November 2015; lack of coordination with WFP and local authorities for implementing distribution and reporting delays; and insufficient consideration of the risks of concentrating distribution activities.</p> <p>Multiple FLAs have been signed with CPs after the beginning of the FLA validity period, thus they were reflected late in corporate systems.</p> <p>During the audit period, WFP staff were not able to effectively assess the CPs' targeting of beneficiaries: attendance to beneficiaries targeting consultation meetings with CPs and local authorities were limited given access/security restrictions or lack of coordination with the major partner; TPM reports in January 2016 indicated that the CPs were using the Social Welfare List (updated in 2008) as a source for beneficiary identification even though WFP had defined and shared new criteria in June 2015; and independent control checks were not performed on the list of registered beneficiaries received from CPs.</p> <p>Differences were noted in planned vs. distributed commodities. Ration cuts were mainly caused by last minute operational problems and partners reported lack of timely communication to disseminate this information to beneficiaries. No structured process was in place at the time of the audit for assessing the nutritional impact of partial distribution, given the complexity of the operation, the reduced ration and the alternate month distribution.</p> <p>WFP also distributed wheat grain in areas where there is no milling capacity and beneficiaries prefer wheat flour. The CO was working on addressing the issue.</p> <p>Cash Voucher –Traders' Network (CV-TN) and GFD quantitative data collected through CPs and reported in monitoring reports and Standard Project Reports were based on assumptions and pro-rated computations from aggregated beneficiary data, which the CO did not clearly disclose.</p> <p><u>Underlying cause:</u> Urgency, complexity and fluidity of the emergency. Lack of clarity in the definition of criteria for allocating distribution. Limited CP presence/offices at field level. Lack of mechanisms to verify beneficiaries registered and proper assessment of vulnerabilities by the CPs, based on accessibility and security assessments. Funding and pipeline constraints not allowing for distributing the full ration in multiple moments of the emergency. Local authorities' request to expand targeted areas, to prevent cohesion problems in the communities and avoid protest/unrest at distribution sites. Insufficient commodity stock and lack of facilities/milling capacities on the ground. Lack of harmonized beneficiaries system and manual and cumbersome process for CPs to collect and register the data accurately</p>	
Agreed action(s)	Action undertaken by CO/RB	Conclusion
The CO will:		
(a) Formalize criteria for allocating distribution and calculate actual cost of distribution taking into account collateral costs, evaluate exposure/dependency risks and ensure all commitments are indicated in the FLAs.	In December 2016, the CO completed a performance evaluation of CPs and formalized criteria for allocation of distribution. The CO is working on the calculation of CPs' distribution costs, including collateral costs that will set the basis for implementation of allocation criteria. This exercise is scheduled to be finalized before commencement of negotiations for new FLAs.	In progress Due date: 31 March 2017
(b) Ensure FLAs are formalized and reflected in corporate systems in a timely fashion.	The CO appointed a dedicated resource to manage FLAs to ensure these are finalized and recorded in the corporate systems as soon as they are signed by the counterparties. <i>OIGA comments: This will also be followed up in the field audit planned to take place later in 2017.</i>	Closed

Agreed action(s)	Action undertaken by CO/RB	Conclusion
<p>(c) Strengthen mechanisms for obtaining up-to-date accessibility and security assessments and allowing WFP staff to attend beneficiary targeting and registration in non-restricted areas. Where access is not possible, consider developing mechanisms for remote independent checks on beneficiaries' targeting and registration (i.e. a call centre capacity to call a sample of beneficiaries also at these stages of the process).</p> <p>(d) Liaise with CPs to implement mechanisms to ensure operational coordination i.e. for targeting and registration by major partner at SO level.</p>	<p>While access to certain locations remains a considerable challenge, the CO prepares monthly plans for WFP staff to perform monitoring activities and established a clear process for requesting security clearance in the case of every staff movement. The call centre in the Sana'a CO performs checks on beneficiaries targeting and registration, mainly focusing on awareness of the targeting process.</p> <p>A number of mechanisms have been implemented to enhance operational coordination with CPs, including an internal memo for clarifying beneficiary targeting process steps and roles. Where a CP's field office structure is not available (as is the case with the major partner), the CO will coordinate and ensure provision of operational information of targeting and registration to the SO for them to attend if possible.</p> <p>No targeting exercise was held after the audit visit; the next one is scheduled for first quarter of 2017.</p>	<p>In progress Due date: 31 March 2017</p>
<p>(e) Implement mechanisms to:</p> <ol style="list-style-type: none"> i. communicate partial distribution to CPs in time for dissemination among beneficiaries, evaluate the impact of partial distribution and assess the cost-benefit of implementing retroactive distribution, and ii. periodically re-assess the validity of current GFD approach, taking into account the results of food security assessments. 	<p>The CO, in collaboration with RBC and HQ, finalized a combined analysis of WFP distribution cycle and Yemen food security data to identify issues and options for a way forward. The latter has been agreed with HQ units and reflected in the recent Budget Review. Reassessment of the validity for the current GFD approach will be performed in March 2017 based on Emergency Food Security and Nutrition Assessment results.</p> <p>Communication of changes in the distribution plans remain addressed at a district level through meetings, mainly for the Food Security and Agriculture Cluster.</p> <p><i>OIGA comments: This will also be followed up in the field audit planned to take place later in 2017.</i></p>	<p>Closed</p>
<p>(f) Where possible, finalize/seek agreements with donors to allow for milling.</p>	<p>An agreement has been signed with one donor for milling services, and the CO has signed LTAs for milling services with two vendors.</p>	<p>Closed</p>
<p>(g) Plan sensitization activities to ensure beneficiaries are aware of the quality and nutritional aspects of food distributed.</p>	<p>The CO has started developing material for sensitization activities of the quality and nutritional aspect of food distributed, and has prepared a plan for the implementation of sensitization activities. The plan implementation will be finalized, in cooperation with CPs, by June 2017.</p>	<p>Closed</p>

Agreed action(s)	Action undertaken by CO/RB	Conclusion
<p>(h) Implement e-vouchers and digital registration of beneficiaries to speed up the registration process and enable the collection and reporting of accurate data.</p> <p>(i) Evaluate the possibility of introducing a harmonized beneficiary management system for GFD.</p>	<p>As of January 2017, the number of beneficiaries registered in the corporate beneficiary and transfer management application (SCOPE) was of 120,000 households (approximately 717,000 beneficiaries) out of approximately 7 million.</p> <p>The CO has launched a local tender to support the set-up and maintain a biometrics supported electronic voucher platform in October 2016. This platform will also be used as a GFD beneficiary management system. The tendering process was under finalization at the time of the desk review.</p> <p>The CO prepared a project plan, defining activities and deadlines for project completion, which indicated from 6 to 8 months for implementation. This will be re-assessed for consistency after tender awarding based on the selected software solution.</p> <p>The activity will be finalized by June 2017 as per original due date in the 2016 audit report.</p>	<p>In progress Due date: 30 June 2017</p>
<p>(j) Ensure data estimates are indicated in project documentation and/or communicated to stakeholders in a clear and timely fashion.</p>	<p>Since April 2016, the FLAs clearly indicate the reporting format to be used by the CPs for reporting actual numbers of beneficiaries, including split of age and gender. The CO reviews reporting for completeness of input data and relies on these to prepare internal and external reporting and intend not to use estimates in the upcoming project documentation. With the introduction of the harmonized beneficiary and transfer management application, the CO will be able to have a consolidate list of beneficiaries and ensure accuracy of actual numbers.</p>	<p>In progress Due date: 30 June 2017</p>

Audit Report Observation		
3	<p>Human resources – Skillset and capacity to support the L3 emergency.</p> <p>There was no Head of Logistics for the majority of the period under review, despite Logistics being identified from the onset of the L3 emergency as a programme critical area. The post was advertised twice through the re-assignment process without success and eventually filled with a person close to retirement who spent only two weeks in country. Similarly, the equally programme critical security officer position has been advertised, with no candidates having applied at the time of the audit fieldwork. The release of other re-assignees for the Yemen operations required significant involvement of the CD to negotiate release with other CDs, and significant time to allow for mandatory security trainings, or for uptake of leave before deployment.</p> <p>The staffing for the CO's scaled-up structure, as defined in November 2015, was far from achieved with process delays in the long listing of candidates by Human Resources (HR) and in the technical evaluation performed by the hiring managers. Errors in the written test administered by HR also slowed recruitments in some cases. Importantly, in the case of the Hodeida SO, recruitments were also put on hold because of insufficient workspace and inadequate accommodation facilities for international recruits. Staff raised concerns on the inadequacy of training provided to support skills development in the period under review. While the structure and delivery heavily depended on national staff, their leave plans were not completed on time in 2015, leading to 71 staff members losing leave days. 2016 submissions were limited, despite several reminders from HR and the CD.</p> <p><u>Underlying cause:</u> Absence of an effective fast track mechanism to support emergency response staffing, coupled with insufficient incentives for WFP staff to be deployed in complex emergencies. Absence of leadership and shared responsibility in achieving the new structure and ensuring appropriate training plans are in place. Lack of accountability of hiring managers in properly planning and managing national staff's leave. Disconnect between the accountability of the CD for the security and safety of staff and the level of delegation of authority to approve security compliance of new office premises and accommodation set-ups in the Hodeida SO, and restrictions on CO to use local construction or engineers.</p>	
Agreed action(s)	Action undertaken by CO/RB	Conclusion
(1) The CRD will use the Yemen emergency as a reference point and liaise with the HR Division in HQ to review and establish a fast track mechanism for deploying the right skills and capacity to the L3 emergency in Yemen as appropriate and to future similar emergencies.	A corporate fast track mechanism was introduced in Q4 2016 to accelerate the deployment of the right skills to L3/L2 emergencies. This includes new guidelines issued in November 2016 to promote geographical mobility with emphasis on L3/L2 emergency operations. Additional actions, such as pre-approval and accelerated process for external recruitment for international professional positions led by the RBC, enhanced use of the emergency roster, reallocation to RBC of some CO tasks for recruitment of local staff and the establishment of a virtual team in HR (HQ/RB/CO) to support fast track L3 emergency deployment have been identified and are under implementation.	Closed
(2) The CO will liaise with RB and HQ units as appropriate to:		
(a) Implement a process for HR and hiring managers, under the leadership of the DCD Administration, to report on a regular basis to the CD on progress against the approved structure.	The CO introduced weekly updates on the recruitment status to CO management, including the CD, DCD and Heads of relevant units. The latest updated HR matrix shows an improvement in the recruitment processes initiated since the 2016 audit.	Closed

Agreed action(s)	Action undertaken by CO/RB	Conclusion
(b) Liaise with HQ units as appropriate to assess and align the CD delegation of authority for the safety and security of staff and office premises and accommodation set-ups in the sub-offices.	The CO, in consultation with RBC, did not consider it necessary to modify the CD's delegation of authority and defined a process for escalating to the RD any delays and/or other issues in the implementation of project plans for the offices and accommodation. The CO, with support from RBC and HQ, completed a section of the office project in Sana'a, and commenced work on the new SO premises in Hodeidah, which is expected to be handed over in February 2017. In January 2017, staff from the HQ Engineering Unit visited Yemen to assist CO management in identifying a viable option for staff accommodation.	Closed
(c) Hold unit managers accountable for timely and effective planning and management of national staff leave.	The CO sent official communications via emails to reinforce leave policies and relative accountabilities to all Yemen CO staff. Leave plans for 2017 were under preparation at the time of the desk review.	Closed
(d) Develop a training plan to support skills development for staff.	The CO prepared a training plan for 2016. The CO is preparing the 2017 training plan taking into consideration the annual staff evaluation and planning process.	Closed

Audit Report Observation		
4	<p>Transport and logistics - Transporters' market assessments.</p> <p>In the period of audit, the CO has continued to use its pool of long-term shortlisted transporters through contract extensions (after shortlist reviews and performance evaluations in line with the Transport Manual). Existing transporters, however, operate in other areas of YECO's supply chain and the audit noted that they do respond to request for proposals in other areas such as warehouse management or food imports.</p> <p>Current rate determination is based on a succession of Requests for Quotes to existing transporters for lowest quote on each route followed by a counteroffer from the CO as per the Transport Manual. This does not consider actual market rates that may be in place nor is there a follow-up on significant discrepancies in rates quoted by the transporters. The Logistics team performed a limited rate analysis in 2016, which did not result in any change in contractual arrangements or transporters used.</p> <p><u>Underlying cause:</u> Security constraints and market disruptions following the war in March 2015 resulted in a lack of assessment of transporters, their contracting and sub-contracting arrangements and applicable rates.</p>	
Agreed action(s)	Action undertaken by CO/RB	Conclusion
<p>The CO will perform a market assessment of transporters, identifying their contracting and sub-contracting arrangements and applicable rates. It will review its contracting arrangements so as to minimize its dependency risks and possible conflict of interests in the provision of supply chain services</p>	<p>The CO has performed a market assessment including: (a) a review of market conditions, including WFP contractors and their respective sub-contractors, and (b) the market rates per route compared to WFP rates for the period October to November 2016.</p> <p>The 2017 shortlist of transporters was updated in November 2016.</p> <p>The introduction of a tonnage allocation per short-listed transporter, resulted in a more equal distribution of allocations, consequently limiting dependency risk and possible conflicts of interests in the supply chain.</p> <p>The allocation is based on specific criteria depending on operational and financial capacity.</p>	<p>Closed</p>

Audit Report Observation		
5	<p>Procurement: Vendor management and contracting.</p> <p>Issues were noted with regards to contracting and vendor performance assessment.</p> <p>In one case, the incorrect definition of delivery dates in the tender, also reported to the Food Committee, resulted in purchases which were not cost effective, and with significant delivery delays as the committee recommendations were not followed. The Committee on Commodity and Transport (PCC) approval was granted ex post. Failure to report to PCC (local and HQ) on the vendor's poor performance resulted in its selection for one of WFP's major contracts. The audit noted that no specific measures were taken to ensure the vendor will perform.</p> <p>In another case, gaps in the technical evaluation process, and later contracting, in a very strategic and complex area, resulted in the CO having to extend the previous contract to allow for hand over to/take over by the new vendor. At the time of the fieldwork, the CO was not clear if the new vendor would be able to perform as required in such a complex situation.</p> <p>At the peak of the emergency, equipment was procured for two ministries to ensure WFP operations continuity without an agreement to regulate asset transfer, including value of transferred assets, subsequent maintenance/repair costs and liabilities. The CO had since received requests for further equipment to be delivered to other public entities and was in the process of evaluating them.</p> <p>There were other instances of non-compliance with procedures, including lack of systematic update of the vendor roster; failure to submit to applicable committee for review of due process; incomplete procurement planning and inadequate physical arrangements for tender submissions.</p> <p><u>Underlying cause:</u> Unclear roles and responsibilities as well as a lack of capacity. Procurement process timelines not adequately disseminated. Lack of clarity in conducting vendor performance evaluation and in escalating adequate information to the procurement committees. Overall urgency and insufficient resources leading to procurement process not being adhered to.</p>	
Agreed action(s)	Action undertaken by CO/RB	Conclusion
The CO will:		
(a) Prepare annual procurement plans and update the vendor rosters.	The CO prepared the Food and Goods and Services Procurement Plan for the period September to December 2016 and in November 2016 launched the process for the preparation of the 2017 Procurement Plan. As of January 2017, the CO was finalizing the Plan due to delayed responses from client units and had submitted a first draft to RBC for comments. The members of the vendor management committee were appointed in August 2016 up to January 2017, and meetings were held to define vendors to be included or removed (both Food and Goods and Services). A comprehensive review of the Food vendor roster was finalized in January 2017. The one for Goods and Services was finalized in August 2016, with subsequent updates reflected as necessary.	Closed

Agreed action(s)	Action undertaken by CO/RB	Conclusion
(b) Clarify roles, responsibilities and required skills for conducting procurement process (including definition of technical specifications, technical evaluation).	The Procurement Plan which was disseminated in September 2016 clarifies the roles and responsibilities for the execution of the food procurement process. In addition, a Management Note on the membership of the Evaluation Panel for Goods and Services Procurement was issued to clarify roles and responsibilities for this step of the process and called for a technical expert to form part of the Panel. All procurement documents, including manuals, standard operating procedures and plan, are available in the public folders and accessible to all staff.	Closed
(c) Disseminate/reinforce knowledge of defined timelines for procurement actions.	The Procurement Plan clarifies the timelines for completion of procurement actions for Food and Goods and Services.	Closed
(d) Clarify and strengthen knowledge of vendor performance assessment process and information escalation (at CO and RB/HQ level).	Memo 004 YEMCO Proc 2017 issued in January 2017 reinforces the need of vendor performance assessment as a requirement for including vendors in the Request for Quotations (RFQ) and tying payment to its execution. <i>OIGA comments: This will also be followed up in the field audit planned to take place later in 2017.</i>	Closed
(e) Prepare a risks analysis associated to the CV-TN and Security contracts to ensure adequate measures are taken to mitigate performance risks.	The CO prepared a risk matrix for the management of the CV-TN project and for the security contract, which identifies major risks and mitigation measures. <i>OIGA comments: This will also be followed up in the field audit planned to take place later in 2017.</i>	Closed
(f) Ensure the confidential fax box has two locks and the keys are in the hands of two different officers.	The CO added a second lock to the confidential fax box and formally appointed holders of relative keys, belonging to different units.	Closed

Table 2: Medium risk observations

Audit Report Observation		
6	<p>Internal oversight - Internal oversight mechanisms.</p> <p>The demands of and restrictions imposed by the emergency situation restricted the primary function of the compliance officer's activity as second line of defence, conducting oversight and process reviews. Instead, the compliance officer mainly worked as a first line of defence, reviewing transactions prior to CD approval. As a result of this, a compliance work plan had not been formalized for 2015 and the work plan for 2016, although formalized, had not been implemented as planned. Some compliance issues were not timely detected, as relative processes had not been reviewed. No structured mechanisms for following up the compliance officer advisory/ recommendations was in place.</p> <p>The contact of the Yemen Feedback Desk, introduced in August 2015 to provide/receive complaints/ observations, was not indicated in the FLAs, as required. A (toll free) Beneficiary Hotline was not available during the audit period. During the fieldwork, management informed us that it was being finalized.</p> <p><u>Underlying cause</u>: Lack of clarity on compliance officer activities and function. Lack of dissemination of the Feedback Desk contacts and delays in establishing beneficiary hotlines.</p>	
Agreed action(s)	Action undertaken by CO/RB	Conclusion
The CO will:		
(a) Finalize implementation of the beneficiary hotline.	The CO finalized a Beneficiary Feedback Mechanism to enable beneficiaries to provide feedback through a toll free line and issued relative Guidelines to define its objective, roles, responsibilities and operating modalities, including providing a daily report on received calls and action taken to address complaints and requiring CPs to disseminate hotline details.	Closed
(b) Reflect the Yemen Feedback Desk contacts in the FLAs.	The CO established a new clause in the FLAs to oblige the CPs to disseminate WFP's Yemen Hotline contacts to beneficiaries. In addition, in November 2016, the CO issued a Note for Clarification on the procurement process which includes the contacts for the Yemen Desk to be attached as annex to tenders.	Closed
(c) Define, in coordination with HQ units as appropriate, a methodology for the operationalization of compliance activities, as well as expected coverage and activities.	The RBC appointed a Regional Bureau Compliance Officer that prepared, in coordination with HQ units, a vision for the RB and based on this, briefed the incoming Yemen CO Compliance Officer to allow for hand over and clarifications of roles, responsibilities and expected operating modalities. The work plan for the first quarter of 2017 provides for the objectives of the Yemen CO Compliance Office and guidance to operationalize the compliance activities.	Closed

Audit Report Observation		
7	<p>Finance and accounting – Performance bonds, financial closure and assets inventory.</p> <p>The CO did not check the validity of performance bonds provided by the vendors for sampled procurement actions.</p> <p>The Protracted Relief and Recovery Operation (PRRO) project financial closure was still on going at the time of the audit, after being reopened to allow for closure of open commitments. Donors expressed concern with regards to project financial closure and correct transfer of funds to the EMOP. An action plan had been defined in agreement with HQ to allow for financial closure within newly established deadline.</p> <p>An assets inventory count was done in February 2015, although not evidenced and with no reconciliation report available. Following the looting of assets in Aden in May 2015 an inventory count was performed in October of the same year, yet not reconciled and not written-off in July 2016. The note for the record was incomplete and not signed by the CD. Migration errors were detected from previous and current assets tracking systems which had yet to be corrected at the time of the audit fieldwork.</p> <p><u>Underlying Cause</u>: Emergency and complexity of the context and operations. Applicable rules not adequately disseminated/enforced. Delays in introducing commitments. Accessibility constraints and limited staffing.</p>	
Agreed action(s)	Action undertaken by CO/RB	Conclusion
The CO will:		
(a) Perform bond validity checks as per financial rules.	The CO requested confirmation of performance bonds provided by vendors to the issuing banks and obtained written confirmation letters that the performance bonds are authentic and enforceable in their records/systems.	Closed
(b) Implement the action plan defined with HQ for closing open items and reach financial close of PRRO 200636 project.	The CO finalized the implementation of the action plan defined with HQ and closed PRRO project 200636. Funds were transferred to the new EMOP.	Closed
(c) Perform an asset count exercise and formalize reconciliation and eventual adjustments in a timely manner.	In November 2016, the CO launched an asset count for all its locations. The count identified discrepancies, most of them resulting from looting and/or careless handling during SO occupation phase in Aden. Steps were taken to proceed with adjustments in WFP's systems. The CO recently appointed Finance and Administration staff for the SOs to finalize an asset tagging exercise and subsequently recording assets and adjustments in the corporate finance system.	Closed

Audit Report Observation		
8	<p>Transport and logistics - Food quality and safety: warehousing and shipping conditions.</p> <p>Only 30 percent of special nutritious product were under the required cold storage conditions in the Hodeida warehouses. The 70 percent remaining stock was exposed to temperatures in excess of 30 degrees and humid conditions. In addition, none of the latter stock when transported, stored at the Food Distribution Points and distributed by the CPs were at any point in time under the right conditions for storage. Furthermore, 1 percent of total shipment of vegetable oil received in the period from December 2015 to July 2016 from Djibouti through bulk shipping required re-bagging and reconditioning.</p> <p><u>Underlying causes:</u> Insufficient cold storage capacity in existing warehouses, lack of capacity in Djibouti for the proper handling and storage of cargo and use of bulk shipping for vegetable oil.</p>	
Agreed action(s)	Action undertaken by CO/RB	Conclusion
The CO will ensure that:		
(a) Adequate temperature controlled conditions are in place for warehouse storage of the special nutritious product stocks.	Due to the impossibility of installing temperature-controlled warehouses in Hodeida, the CO transferred special nutritious food stocks to Sana'a where weather/temperature conditions are more favourable.	Closed
(b) Vegetable oil in transit through Djibouti is shipped in containerized vessel to avoid damage and mishandling of the cargo.	WFP's Logistics and Field Support unit issued instructions to ship vegetable oil in containerized vessel in September 2016. A discharge report from November 2016 to January 2017 shows that shipments were performed using containerized commercial vessels.	Closed

Audit Report Observation		
9	<p>Security - Security and Minimum Operating Security Standards (MOSS) compliance.</p> <p>Security threats, notably armed conflict, terrorism, and crime, are substantial in Yemen.</p> <p>Updated MOSS were released by UN Department of Safety & Security in January 2016 and a revised Country Security Plan applicable to all UN agencies in the country was issued in 2016.</p> <p>The audit noted instances of non-compliance with MOSS, mainly due to delays in the custom clearance, and the envisaged new CO premises had not been upgraded or cleared for security purposes. The RB had not performed a MOSS compliance mission during the audit period.</p> <p><u>Underlying Cause</u>: Custom restrictions and lack of clearance for security equipment. Limited WFP Security staff in the country. Lack of priority in performing a MOSS compliance mission from RB.</p>	
Agreed action(s)	Action undertaken by CO/RB	Conclusion
(1) The CO will continue following up with local authorities to obtain clearance of security equipment.	The CO sent the Yemeni authorities formal communications requesting clearance of security equipment on November 2016; although clearance of most of the security equipment is still pending. The CO has formally defined a quarterly follow up process with the authorities until retained items are released.	Closed
(2) The RBC will perform a MOSS compliance assessment / security monitoring mission.	The RBC performed a security assessment of Yemen CO in August 2016. The CO is working on addressing observations and recommendations from this assessment conducting comprehensive MOSS compliance checks for each SO.	Closed

Audit Report Observation		
10	<p>Internal and external communication - Donor relations and resource mobilization: engagement and information sharing.</p> <p>None of WFP's Yemen donors are represented in-country. As a result, some relationships are managed centrally through HQ while others are through the intermediary of WFP offices such as Berlin or Dubai. The top four donors reported the difficulty in obtaining clear, transparent and pro-active communication on challenges faced by the WFP management and team at the beginning of the emergency as their main concern. Concurrently, there has been a significant increase in requests for information, beyond those normally foreseen in donor agreements. Examples include requests for the raw data underlying WFP's Vulnerability Analysis & Mapping or for a full detailed list of beneficiaries in support of donor TPM activities.</p> <p><u>Underlying cause</u>: Absence of clarity on the role and engagement of the CD with donors in their capital. Absence of corporate guidance on sharing and protection of beneficiary information.</p>	
Agreed action(s)	Action undertaken by CO/RB	Conclusion
The CO will:		
(a) In consultation with the Partnership, Governance and Advocacy Department (PG) and RBC, clarify the levels of engagement of the CD with donors in their capital in a resource strategy for the Yemen operations.	The agreed deadline for implementation of this action is 31 December 2017.	In progress Due date: 31 December 2017
(b) In consultation with PG and Legal, clarify the confidentiality attached to beneficiary data for further disclosure to donors upon request.	The CO consulted with the RBC and HQ units to escalate and clarify the confidentiality attached to beneficiary data for disclosure to donors. Recent donors' requests have been assessed by WFP HQ Senior Management and an agreement with donors is under finalization at HQ level.	Closed

Audit Report Observation		
11	<p>In country programme monitoring and evaluation – Management of TPM service providers.</p> <p>The CO’s Standard Operating Procedures (SOPs) on TPM did not include provisions on their selection and assessment.</p> <p>On-site monitoring activities performed by WFP staff were not implemented on the basis of a systematic methodology throughout the audit period, and a field-monitoring programme had not been developed.</p> <p>Data cleaning and validation processes by the Monitoring and Evaluation (M&E) Unit were not properly documented.</p> <p><u>Underlying Cause</u>: Operational challenges, such as security, accessibility constraints, and limited staff availability. Lack of a dedicated structure (i.e. Steering Committee) to ensure coordination with TPM service providers and to address operational issues.</p>	
Agreed action(s)	Action undertaken by CO/RB	Conclusion
The CO will:		
(a) Review and update current SOPs on TPM to include the selection and assessment of TPM service providers.	The CO updated its SOP on TPM. This defines the selection criteria for TPM service providers and establishes the requirement for their assessment before contract renewal.	Closed
(b) Review its M&E Strategy and monitoring plans to also include field visits by WFP staff.	The CO prepared monthly plans for staff to perform distribution and post distribution monitoring and is in the process of reviewing its M&E strategy. The action will be fully implemented by the agreed due date of 31 March 2017.	In progress Due date: 31 March 2017

Annex A – Definition of categorization of observations

Risk categorization of audit observations

Audit observations are categorized by impact or importance (high, medium or low risk) as shown in the table below.

Categorization of observations by impact or importance

High risk	<p>Issues or areas arising relating to important matters that are material to the system of internal control.</p> <p>The matters observed might prevent the achievement of a corporate objective or result in exposure to unmitigated risk that could highly impact corporate objectives.</p>
Medium risk	<p>Issues or areas arising related to issues that significantly affect controls but may not require immediate action.</p> <p>The matters observed might prevent the achievement of a business objective, or result in exposure to unmitigated risk that could have an impact on the objectives of the business unit.</p>
Low risk	<p>Issues or areas arising that would, if corrected, improve internal controls in general.</p> <p>The observations identified are for best practices as opposed to weaknesses that prevent the meeting of systems and business objectives.</p>

Annex B – Acronyms

CD	Country Director
CO	Country Office
CP	Cooperating Partners
CRD	Corporate Response Director
CV-TN	Cash Voucher – Traders’ Network
DCD	Deputy Country Director
DEC	Deputy Emergency Coordinator
EMOP	Emergency Operation
FLA	Field Level Agreement
GFD	General Food Distribution
HR	Human Resources
HQ	Headquarter
IPC	Integrated Food Security Phase Classification
L2	Level 2
L3	Level 3
M&E	Monitoring and Evaluation
MOSS	Minimum Operating Security Standards
NGO	Non-governmental Organization
OSE	Supply Chain Division
OTF	Operational Task Force
PCC	Procurement Contract Committee
PG	Partnership, Governance and Advocacy Department
RB	Regional Bureau
RBC	Regional Bureau Cairo
RD	Regional Director
RR	Risk Register
SO	Sub-Office
SOP	Standard Operating Procedure
TOR	Terms of Reference
TPM	Third Party Monitoring
UN	United Nations
USD	United States Dollar
WFP	World Food Programme
YECO	Yemen Country Office