Internal Audit of WFP Operations in Haiti

Office of the Inspector General
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WFP
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World Food Programme

Contents

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I. Executive Summary

Introduction

1.   As part of its annual work plan for 2012, the Office of Internal Audit conducted an audit of WFP Operations in Haiti. The World Food Programme's (WFP) Direct Expenses in Haiti in 2012 totalled US$69 million[1], representing 1.7 percent of WFP's total Direct Expenses for the year. The audit covered activities from 1 April 2011 to 30 September 2012 and included field visits to various locations in Haiti, and a review of related corporate processes that impact across WFP.

2.   The audit was carried out in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors.

Audit Conclusions

3.   Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **unsatisfactory**[2]. Conclusions by internal control component are summarized in Table 1 by internal control components.

Table 1: Summary of Conclusions by Internal Control Components

Internal Control Component	Conclusion	
1. Internal environment	High	🟥
2. Risk assessment	Medium	🟨
3. Control activities	High	🟥
4. Information and communication	Medium	🟨
5. Monitoring	Medium	🟨

Key Results of the Audit

Positive practices and initiatives

4.   A number of positive practices and initiatives were noted, including the preparation of the formal Country Strategy and a new online M&E database that will facilitate data gathering and data analysis.

Audit recommendations

5.   The audit report contains two high-risk and eight medium-risk recommendations addressed to the Country Office management. The high-risk observations arising from the audit were as follows.

6.   **Internal Control Environment:** The Country Office delegated significant responsibilities to junior staff and to its sub-offices without ensuring proper oversight, and, in some cases, against WFP rules and regulations.

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[1] WFP/EB.A/2013/4 – Annual Performance Report for 2012 – Annex IX-B.
[2] See Annex A for definitions of audit terms.

7.   **Safety and security of the WFP compound:** After the earthquake, WFP decided to build a compound outside Port-au-Prince to provide safe housing for its staff and, if necessary, serve as a safe haven in case of an emergency. The compound was not MOSS (Minimum Operating Security Standards) compliant and it was unclear whether it could be used in an emergency as a safe and effective alternative location for the Office.

8.   The audit also identified some control issues relating to corporate processes. High- and medium-risk recommendations regarding those processes and addressed to management outside the Country Office have been included in a separate report.

Management Response

9.   Management accepted all the recommendations and has reported that they are in the process of implementing them.

David Johnson
Inspector General

II. Context and Scope

Haiti

10. Haiti has a population of 10.1 million and an annual average income of about US$ 1,000 per capita (PPP 2005). It is a low-income country with 77 percent of the population living below the poverty threshold, and a high corruption index, ranking 175th of 183 in the Transparency International Corruption Perception index.

11. The country has partly recovered from the 2010 earthquake. However, the long-term causes of poverty remain.

WFP Operations in Haiti

12. At the time of the audit, the key WFP activities in Haiti included providing food assistance to almost 20 percent of the total population, school feeding and support to the humanitarian community on ICT and logistics services.

13. Partly as a result of reduced funding levels, at the time of the audit the Country Office was in the process of redefining its priorities through the preparation of a formal Country Strategy Document and re-aligning its staffing structure to the new priorities through a staffing review exercise.

14. The projects implemented during the period under review were:
- A Protracted Relief and Recovery Operation (n.108440; 2010-2013) for providing food assistance to vulnerable groups. At the time of the audit, this programme had an overall budget of US$243.3 million. The programme was later revised and extended to the end of 2013.
- A Development Operation (n.200150; 2012-2014) to provide school meals with a budget of US$63.3 million.
- A Special Operation (n.200108; 2010-2012) to provide logistics and telecommunication support to the humanitarian community with a final budget of US$98.4 million.

Objective and Scope of the Audit

15. The objective of the audit was to evaluate and test the adequacy and effectiveness of the processes associated with the internal control components of WFP's operations in Haiti, as part of the process of providing an annual and overall assurance statement to the Executive Director on governance, risk management and internal control processes.

16. The audit was carried out in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors. It was completed according to an approved planning memorandum and took into consideration the risk assessment exercise carried out prior to the audit.

17. The scope of the audit covered WFP's operations in Haiti for the period from 1 April 2011 to 30 September 2012. Where necessary, transactions and events pertaining to other periods were reviewed. The audit, which took place from 5 to 29 November 2012, included visits to various locations in Haiti.

III. Results of the Audit

18. In performing the audit, the following positive practices and initiatives were noted:

Table 2: Positive practices and initiatives

1. Internal environment

- The Country Office was in the process of preparing a Country Strategy to guide the design of its new project, even though this was not mandatory at the time of the audit.

2. Control activities

- The Country Office offered training to implementing partners to support their capacity development.
- The Country Office introduced new tools to improve consistency and oversight of activities across different locations and different departments. This included introducing new detailed pipeline templates, strengthening the role of head of programme and setting up a committee to review field level agreements with implementing partners.
- The Country Office carried out a detailed needs-mapping exercise across the country.

3. Monitoring

- The Country Office designed a new web-based M&E database which should enable management to improve monitoring and analysis of M&E information at a very detailed level (e.g. by implementing partner, by location, by beneficiary type, etc.).

19. Having evaluated and tested the controls in place, the Office of Internal Audit has come to the following conclusions on the residual risk related to the processes as follows:

Table 3: Conclusions – categorization of risk by internal control component and business process

Internal Control Component/ Business Process	Risk (Country Office)
1. Internal environment	
Corporate organizational and reporting structure	High
Delegated authority	High
Strategic planning and performance accountability	Medium
2. Risk assessment	
Emergency preparedness and response	Medium
3. Control activities	
Finance and accounting	Medium
Programme management	Medium
Transport and logistics	Medium
Commodity management	Medium
Procurement	Medium
Human resources	Medium
Property and equipment	High
Security	Medium
4. Monitoring	
Programme monitoring and evaluation	Medium

20. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **unsatisfactory**[3].

21. A total of two high-risk recommendations were made, which are detailed in Section IV of this report, and eight medium-risk recommendations. Tables 4 and 5 present the high- and medium-risk recommendations respectively.

22. The audit also identified some control issues relating to corporate processes. High- and medium-risk recommendations relating to those processes were addressed to management outside the Country Office and have been included in a separate report.

Management Response

23. Management has agreed with all recommendations and reported that they are in the process of implementing them[4].

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[3] See Annex A for definitions of audit terms.
[4] Implementation of the recommendations will be verified through the office of Internal Audit's (OIGA) standard system for monitoring of implementation of audit recommendations.

Table 4: Summary of high-risk recommendations (see Section IV for detailed assessment)

	Observation	Recommendation	Risk categories[5]	Underlying cause category	Owner	Due date
Internal Environment						
1	**Corporate organizational and reporting structure:** Oversight and delegations of authority - It was noted that sub-offices were seldom visited by staff from the main office and that key data regarding distributions and other activities taking place in sub-offices were not reviewed and analyzed in the main office. Moreover, most purchase orders or contracts were signed by the Deputy Country Director and not by the Country Director, and, in some cases, agreements were signed by junior programme staff. Significant weaknesses in the governance of different processes were also noted.	Ensure that purchase orders and contracts are only signed by staff with the appropriate delegation of authority. Put in place a system to ensure proper oversight of sub-offices and of key Country Office activities.	Operational

Institutional

Internal Business Processes | Human error | Haiti Country Office | Implemented |
| **Control Activities** | | | | | | |
| 2 | **Property and equipment:** Compliance issues of staff compound - A compound built by WFP for UN staff in the outskirts of Port-au-Prince was found to be non-compliant with minimum UN security standards, construction standards and emergency evacuation standards. | Promptly take all the necessary steps to ensure compliance with security, health and safety and emergency preparedness rules and regulations. | Operational

Institutional

Stewardship | Compliance | Haiti Country Office | Implemented |

[5] See Annex A for definition of audit terms.

Table 5: Medium-risk recommendations

	Observation	Recommendation	Risk categories[6]	Underlying cause category	Owner	Due date
	Risk assessment					
3	**Emergency Preparedness and Response:** Plans in place **-** The Country Office did not have proper plans in place to respond to a threat to business continuity. Should a new emergency occur, this could negatively affect WFP's staff and assets and reduce the effectiveness and the efficiency of WFP's response to beneficiary needs.	Review and update the Business Continuity Plan (including the ICT Disaster Recovery Plan) and ensure that all actions required to ensure compliance are implemented and tested through an emergency simulation exercise.	Operational Institutional Operational Efficiency	Compliance	Haiti Country Office	Implemented
	Control activities					
4	**Finance and accounting:** Monitoring of receivables **-** The Country Office was not systematically monitoring income arising from the rental of the accommodation in the housing project, the sale of assets, the sale of logistics cluster services and receivables from a logistics supplier. This is a risk for WFP of not claiming all its dues and not noticing potential fraud on income receipts.	Strengthen financial recording and monitoring of all income.	Operational Institutional Internal Business processes	Best practice	Haiti Country Office	Implemented
5	**Programme management:** Relationship with cooperating partners - The Country Office was dealing with over two hundred cooperating partners**.** Some of the agreements had been signed by junior staff and were not always compliant with WFP standard clauses. There were errors and inconsistencies in the distributions figures received from the implementing partners and used as the basis for WFP's programme implementation figures.	Continue to re-align all Field Level Agreements with WFP rules and regulations, formally assess all partners and ensure proper monitoring of partner invoices and distribution reports at Sub-Office and Country Office level prior to payment.	Operational Programmatic Operational Efficiency	Best practice	Haiti Country Office	Implemented

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[6] See Annex A for definition of audit terms.

	Observation	Recommendation	Risk categories[6]	Underlying cause category	Owner	Due date
6	**Programme management:** Management of trust fund for local milk production - The Country Office was managing a three-year trust fund to support a local cooperative of farmers in distributing milk to schools. Weaknesses were found in the monitoring of the milk quality, in the timeliness of payments to farmers, the selection of beneficiaries and in the assessment of the impact of these activities on school children.	Review the current status of implementation of Trust Fund activities and ensure compliance with the original agreement and the WFP's strategy for Haiti.	Operational Programmatic Stewardship	Compliance	Haiti Country Office	Implemented
7	**Commodity management:** Old commodities in stock **-** One of the warehouses was found to contain expired Plumpy Doz (which are no longer being distributed) and beans received in 2010. Because these items were not labelled with formal expiry dates, they were still being distributed to beneficiaries.	Take the appropriate action regarding old products currently in the warehouse and strengthen procurement planning to avoid excessive stock to start with.	Operational Programmatic Stewardship	Human error	Haiti Country Office	Implemented
8	**Property and equipment:** Un-utilized assets - in storage - The Country Office had a large number of un-used or under-utilized assets, including trucks, generators, ICT equipment, wiikhalls, and warehouses space. Most of these assets were either purchased or received as a donation at the time of the earthquake.	Analyse current and expected needs and prepare a disposal plan for all assets which are no longer needed.	Operational Institutional Stewardship	Best practice	Haiti Country Office	30 June 2014
9	**Security***:* Compliance with UN minimum security rules - The Country Office was not fully compliant with the UN safety and security regulations.	Prepare an action plan to promptly address all non-compliance issues related to security.	Operational Institutional Stewardship	Compliance	Haiti Country Office	Implemented
Monitoring						
10	**Programme monitoring and evaluation:** Weaknesses in M&E - M&E was fully delegated to sub-offices with little oversight from senior management in the main office and also, in some cases, very limited resources, preventing proper coverage. Inconsistencies were found between the output and outcome indicators in the original project documents and the indicators used as the performance benchmark in the annual reports to donors (Standard Project Reports - SPR), making it difficult for donors to assess the impact of WFP's activities.	Continue to strengthen M&E and ensure that a clear M&E strategy is put in place.	Operational Programmatic Operational Efficiency	Resources	Haiti Country Office	Implemented

IV. Detailed Assessment

Internal Environment	High-Risk

Observation 1   Corporate organizational and reporting structure: Compliance with WFP policies and procedures

24. In performing the audit, OIGA noted that sub-offices were seldom visited by staff from the main office and that key data regarding distributions and other activities taking place in sub-offices were not reviewed and analyzed in the main office.

25. It was also noted that most purchase orders or contracts were signed by the Deputy Country Director and not by the Country Director. In some cases, agreements were signed by junior programme staff. User profiles to access the corporate Enterprise Resource Planning system were also found to be wrong.

Other weaknesses regarding general governance of the office included: lack of implementation of regional bureau observations from 2011, low PACE (Performance and Competency Enhancement Programme) completion rates, errors and delays in recording of transactions in the system and frequent use of waivers. Agreements with the government for key activities were still in draft.

Recommendation 1	
Underlying cause of observation:	Errors, and lack of knowledge of key WFP rules by local and some international staff. High turnover of international staff. Key corporate policies and procedures not available in French. Lack of Corporate Guidelines on some technical issues.
Implication:	Reduced efficiency and effectiveness of WFP operations and potential liabilities for the Country Office; increased probability that risks will not be detected in a timely manner and that management will be unable to take appropriate mitigating actions in a timely manner.
Policies, procedures and requirements:	WFP policies and procedures in the areas of governance, finance, procurement, logistics and programme management. Best practice organizational management.

Recommendation: Ensure that purchase orders and contracts are only signed by staff with the appropriate delegation of authority. Put in place a system to ensure proper oversight of sub-offices and of key Country Office activities.

Agreed management actions: Improvements are already in place in segregation of duties, payments and procurement planning. An implementation plan for recommendations from oversight missions has been prepared and the Country Office will perform bi-monthly reviews of outstanding recommendations. The Country Office will increase visits to sub-offices by each unit and ensure at least one visit each quarter from key staff from Port-au-Prince. Appropriate accounting training will be organized. Finance staff will monitor all cost categories and provide management with a monthly report. New templates for minutes are being designed and the importance of PACEs is being reiterated. The Memorandum of Understanding on school feeding has now been signed and all other outstanding agreements referred to above are expected to be signed shortly.

Target implementation date: Implemented.

Control Activities	High-Risk

Observation 2   Property and equipment: Weaknesses in the housing project

26.   In June 2010, after the earthquake, WFP decided to build a compound to house WFP staff safely. The final cost of the compound was around US$10 million. At the time of the audit, it had an occupancy rate of 90%; most guests were not WFP staff.

27.   In reviewing documents relating to this project OIGA noted that it was unclear whether the compound was MORSS (Minimum Operating Residential Security Standards) compliant and would withstand strong hurricanes or earthquakes. It was also unclear whether WFP had a formal permission of passage on the land leading to the compound and what agreement was in place regarding neighbouring land which was being used for key some WFP assets.

28.   As well as the weaknesses described above, there were difficulties with the internet and the back-up generators at the time of the audit, all of which made it unclear whether the compound would be able to function as an off-site facility for WFP staff in an emergency.

29.   The Country Office had several disagreements with the construction company regarding responsibilities for delays and quality of the work. The Country Office ultimately signed an "amicable agreement" which settled WFP's liability but limited any further recourse to the supplier regarding construction defects.

30.   It should also be noted that by signing the "amicable settlement" with the construction company, WFP waived all its rights regarding the responsibility of the contractor for ensuring compliance with original contract specifications.

Recommendation 2	
Underlying cause of observation:	Weak local project management. Lack of corporate guidelines regarding management of construction projects.
Implication:	Potential legal claims from housing project residents and visitors; lack of insurance coverage for security or accidents happening within the grounds; uncertainty regarding the actual disposal value of the project; potential difficulties in dealing with an emergency.
Policies, procedures and requirements:	Compliance with UNDSS (United Nations Department of Safety and Security) regulation and with best practice health and safety regulations. Efficient and effective use of WFP resources.

Recommendation: The Country Office should promptly take all the necessary steps to ensure compliance with security, health and safety and emergency preparedness rules and regulations.

Agreed management actions: The Country Office will work with UNDSS to implement the recommendations.

Target implementation date: Implemented.

Annex A – Definitions of Audit Terms

1. WFP's Internal Control Framework (ICF)

A 1.   WFP's Internal Control Assurance Framework follows principles from the Committee of Sponsoring Organizations of the Treadway Commission's (COSO)[7] Integrated Internal Control Framework, adapted to meet WFP's operational environment and structure. The Framework was formally defined in 2011.

A 2.   WFP has defined internal control as a process designed to provide reasonable assurance regarding the achievement of objectives relating to (a) effectiveness and efficiency of operations; (b) reliability of reporting; and (c) compliance with WFP rules and regulations. WFP recognizes five interrelated components (ICF components) of internal control which need to be in place and integrated for it to be effective across the above three areas of internal control objectives. The five ICF components are (i) Internal Environment, (ii) Risk Management, (iii) Control Activities, (iv) Information and Communication, and (v) Monitoring.

2. Risk categories

A 3.   The Office of Internal Audit evaluates WFP's internal controls, governance and risk management processes, in order to reach an annual and overall assurance on these processes in the following categories:

Table A.1: Categories of risk – based on COSO frameworks and the Standards of the Institute of Internal Auditors

1	Strategic:	Achievement of the organization's strategic objectives.
2	Operational:	Effectiveness and efficiency of operations and programmes including safeguarding of assets.
3	Compliance:	Compliance with laws, regulations, policies, procedures and contracts.
4	Reporting:	Reliability and integrity of financial and operational information.

A 4.   In order to facilitate linkages with WFP's performance and risk management frameworks, the Office of Internal Audit maps assurance to the following two frameworks:

Table A.2.1: Categories of risk – WFP's Management Results Dimensions

1	Securing resources:	Efficiency and effectiveness in acquiring the resources necessary to discharge WFP's strategy – this includes money, food, non-food items, people and partners.
2	Stewardship:	Management of the resources acquired – this includes minimising resource losses, ensuring the safety and wellbeing of employees, facilities management, and the management of WFP's brand and reputation.
3	Learning and innovation:	Building a culture of learning and innovation to underpin WFP's other activities – this includes knowledge management, staff development and research capabilities.
4	Internal business processes:	Efficiency of provision and delivery of the support services necessary for the continuity of WFP's operations – this includes procurement, accounting, information sharing both internally and externally, IT support and travel management.
5	Operational efficiency:	Efficiency of WFP's beneficiary-facing programmes and projects delivery – this includes project design (partnership/stakeholder involvement and situation analysis) and project implementation (fund management, monitoring and reporting, transport delivery, distribution, pipeline management).

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[7] Committee of Sponsoring Organizations of the Treadway Commission.

Table A.2.2: Categories of risk – WFP's Risk Management Framework

1	Contextual:	External to WFP: political, economic, environmental, state failure, conflict, humanitarian crisis.
2	Programmatic:	Failure to meet programme objectives and/or potential harm caused to others through interventions.
3	Institutional:	Internal to WFP: fiduciary failure, reputational loss, financial loss through corruption.

3. Causes or sources of audit observations

A 5.   The observations were categorized on the basis of causes or sources:

Table A.3: Categories of causes or sources

1	Compliance	Requirement to comply with prescribed WFP regulations, rules and procedures.
2	Guidelines	Need for improvement in written policies, procedures or tools to guide staff in the performance of their functions.
3	Guidance	Need for better supervision and management oversight.
4	Resources	Need for more resources (funds, skills, staff, etc.) to carry out an activity or function.
5	Human error	Mistakes committed by staff entrusted to perform assigned functions.
6	Best practice	Opportunity to improve in order to reach recognised best practice.

4. Risk categorization of audit observations

A 6.   The audit observations were categorised by impact or importance (high, medium or low risk) as shown in table A.4 below.   Audit observations typically can be viewed on two levels: (1) observations specific to an office, unit or division, and (2) observations which may relate to a broader policy, process or corporate decision and may have broad impact.[8]

Table A.4: Categorization of observations by impact or importance

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

A 7.   Low risk recommendations, if any, are communicated by the audit team directly to management, and are not included in this report.

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[8] An audit observation of high risk to the audited entity may be of low risk for WFP as a whole; conversely, an observation of critical importance for WFP may have low impact for a specific entity, but globally be of high impact.

5. Recommendation tracking

A 8.   The Office of Internal Audit tracks all medium and high risk recommendations. Implementation of recommendations will be verified through the Office of Internal Audit's system for monitoring the implementation of audit recommendations.   The purpose of this monitoring system is to ensure that management actions have been effectively implemented within the agreed timeframe in order to manage and mitigate the associated risks identified, thereby contributing to the improvement of WFP's operations.

6. Rating system

A 9.   Internal control components and processes are rated according to their risk severity. These ratings are part of the system of evaluating the adequacy of WFP's risk management, control and governance processes. A rating of satisfactory, partially satisfactory, and unsatisfactory is reported in each audit, and these categories are defined as follows:

Table A.5: Rating system

Engagement rating	Definition	Assurance level
Satisfactory	Internal controls, governance and risk management practices are adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.	Reasonable assurance can be provided
Partially Satisfactory	Internal controls, governance and risk management practices are generally established and functioning, but need improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.	Reasonable assurance is at risk.
Unsatisfactory	Internal controls, governance and risk management practices are either not established or not functioning well. The issues identified were such that the achievement of the overall objectives of the audited entity could be seriously compromised.	Reasonable assurance cannot be provided.

Annex B – Acronyms

CO	Country Office
ERP	Enterprise Resource Planning System
ICT	Information Communication and Technology
M&E	Monitoring and Evaluation
MOSS	Minimum Operating Security Standards
MORSS	Minimum Operating Residential Security Standards
PACE	Performance and Competency Enhancement Programme
SPR	Standard Project Report
UN	United Nations
UNDSS	United Nations Department of Safety and Security
WFP	World Food Programme