

Internal Audit of WFP's Per-Capita Funding Modality for Corporate IT Services

Office of the Inspector General
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World Food Programme

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I. Executive Summary






Introduction

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP's Per-Capita Funding Modality for Corporate IT Services ("Per-Capita"). The audit took place during November 2013 and covered activities from 1 January 2012 to 31 October 2013. It looked at events prior and subsequent to this period as required. The audit was conducted at WFP Headquarters in Rome.
2. In August 2012, WFP adopted a Per-Capita cost recovery model for selected corporate IT service operational costs with the aim of scaling the costs to the relevant size of each operation to accurately reflect them against the most appropriate cost category. The total estimated cost of the services charged under the Per-Capita model in 2013 amounted to USD 26.9 million, equivalent to a unit cost of approximately USD 2,250 for each user.
3. The audit was carried out in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Audit Conclusions

4. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **satisfactory**. Conclusions by internal control component are summarised in Table 1:

Table 1: Summary of conclusions by Internal Control Components

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

Key Results of the Audit

Positive practices and initiatives

5. The Per-Capita cost-recovery process provided WFP with a means to charge the recurring cost of certain IT-related services to the correct cost category. A system was in place to monitor and record the cost recovered from offices. USD 24.3 million of the USD 26.9 million Per-Capita charge for 2013 had been recovered by 14 January 2014.

Audit observations

6. No high-risk observations arose from the audit. The audit report contains five medium risk observations.

Proposed agreed action

7. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations. Work is in progress and management plans to have all the agreed actions implemented by 31 December 2014.

8. The Office of Internal Audit would like to thank managers and staff for the assistance and cooperation accorded during the audit.



David Johnson
Inspector General

II. Context and Scope

WFPs Per-Capita Funding Modality for Corporate IT Services

9. WFP's main corporate IT services were delivered to a broad and decentralised WFP organisational structure and supported a variety of business processes and offices. The contracting of these services was centralised in WFP Headquarters in Rome while services were delivered directly to staff in WFP offices worldwide. The operational cost of these services represented a significant portion of WFP's recurring operational expenses. Prior to the introduction of Per Capita, the majority of these recurring services were charged against the Country Office (CO) Direct Support Costs (DSC) but a significant amount was charged against the Programme Support and Administrative (PSA) budget of the Information Technology Division.

10. In August 2012, WFP adopted a cost recovery model for selected corporate IT service operational costs with the aim of scaling the costs to the relevant size of each operation to accurately reflect them against the most appropriate cost category. The Information Technology Division was assigned to estimate the annual costs of the services to be included in the Per-Capita model, and the Budget and Programming Division was given responsibility for recovering the share of costs from each office. The Per-Capita unit cost was calculated by dividing the projected total annual cost of the selected IT services by the number of users registered in the WFP global Active Directory (AD). In 2013, the total estimated cost for the services charged under the Per-Capita model was USD 26.9 million. This was equivalent to a unit cost of USD 2,250 for each of the approximately 12,000 persons registered in the AD account. USD 24.3 million had been recovered as of 14 January 2014.

Objective and scope of the audit

11. The objective of the audit was to evaluate and test the adequacy and effectiveness of the processes associated with the implementation and management of Per-Capita 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.

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

13. The scope of the audit covered the Per-Capita process for the period from 1 January 2012 to 31 October 2013. It looked at events prior and subsequent to this period as required. The audit took place from 11 November to 29 November 2013 and was conducted at WFP Headquarters in Rome. The audit team used structured interviews and electronic questionnaires to obtain and evaluate the views of Per Capita users across WFP in line with objectives of the audit.

III. Results of the audit

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

Table 2: Positive practices and initiatives

1. Control activities

- The portion of the IT recurring costs that previously were charged to the IT Division PSA were now charged to a specific cost category.
- There was a process requesting offices to confirm the number of persons registered in the AD account by Business Area.
- USD 24.3 million of the USD 26.9 million Per-Capita charge for 2013 had been recovered by 14 January 2014.

2. Monitoring

- A system was in place to monitor the status of cost-recoveries.

15. Having evaluated and tested the controls in place, the Office of Internal Audit has rated the internal control components as follows:

Table 3: Conclusions on risk by internal control component and business process

Internal Control Component/Business Process	Risk
1. Internal environment	
Strategic planning and performance accountability	Low
2. Risk assessment	
Enterprise risk management	Medium
3. Control activities	
IS/IT plan and organize	Medium
Finance and accounting	Medium
4. Information and communication	
Internal communication	Medium
5. Monitoring	
Monitoring of cost-recoveries	Low

16. Based on the results of the audit, the Office of Internal audit has come to an overall conclusion of **satisfactory**¹.

17. No high risk observations arose from the audit. The audit report contains five medium risk observations. These are presented in Table 4.

Agreed action

18. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations. Work is in progress and management plans to have all the agreed actions implemented by 31 December 2014.²

¹ See Annex A for definitions of audit terms.

² Implementation will be verified through the Office of Internal Audit's standard system for monitoring agreed actions.

Table 4: Medium-risk observations

Observation	Agreed action	Risk categories ³	Underlying cause category	Owner	Due date
Risk Assessment					
1 Enterprise risk management: Absence of a risk, cost-benefit and business impact analysis – Although Per-Capita was a new cost-sharing model for WFP, a risk and cost-benefit analysis to determine the impact on the business was not performed before the model was presented to the Executive Management Group for review and approval.	Establish criteria and issue instructions for the mandatory undertaking of a risk and cost-benefit analysis in the case of cost-sharing processes that will have a global impact on WFP operations.	Operational Processes & Systems Institutional	Guidelines	Office of the Executive Director	30 September 2014
Control Activities					
2 IS/IT Plan and Organise: Calculation Criteria - The Per-Capita unit charge for each office was calculated on the basis of the number of Active Directory (AD) accounts. The audit noted instances when the use of this criterion made the charge to offices inaccurate and a need for stronger controls to ensure that the calculation only considered staff that had an active WFP contract. Sample testing identified 61 active accounts related to people who had left WFP and 207 records that had a contract shorter than 360 days but were charged a full annual fee. The Information Note stated that an average of 12 monthly counts of the AD should be used to determine the annual cost calculation but the number of users as at 31 January 2013 was used instead.	Review the criteria for calculating the Per-Capita unit cost for each Business Area to obtain a more accurate charge.	Operational Accountability & Funding Institutional	Guidelines	Information Technology Division	30 June 2014

³ See Annex A for definition of audit terms.

Observation	Agreed action	Risk categories ⁴	Underlying cause category	Owner	Due date
Control Activities					
3	IS/IT Plan and Organise: Composition and estimated costs of services included in the Per-Capita – The services covered under Per-Capita met the established criteria; however the basis for determining the criteria, the selection of the services to be included and the estimation of the individual costs was not documented. For example, the PASport payroll application was not used by all offices but formed part of the global cost calculation while applications that were in use throughout WFP (e.g. Asset Management Database, TeamCentral, Vehicle Tracking System) were excluded from Per-Capita.	Review and document the criteria for including services and applications in the Per-Capita charge, and make any changes that may be called for.	Operational Accountability & Funding Institutional	Best practice Information Technology Division	31 December 2014
4	Finance and Accounting: Actual cost recovery - Organizational Budgeting Service determined that the USD 26.9 million Per-Capita cost for 2013 was to be recovered in two tranches. USD 24.3 million had been recovered by 14 January 2014. However, there were no procedures for dealing with cases when offices were unable to pay their share of Per-Capita. In March 2014, USD 2.1 million was outstanding with four offices owing between USD 50K and USD 100K, five offices between USD 100K and USD 200K and one office owing USD 270K.	Establish written procedures for dealing with cases when an office is unable to pay its share of Per-Capita within the required timeline.	Operational Accountability & Funding Institutional	Guidelines Organizational Budgeting Service	30 June 2014

⁴ See Annex A for definition of audit terms.

Observation	Agreed action	Risk categories ⁵	Underlying cause category	Owner	Due date
Information and Communication					
5	Information and Communication: Internal Communication – A proper communication mechanism was not put in place prior to implementing Per-Capita. The minutes of the Executive Management Group meeting that approved Per-Capita highlighted the need for the Regional Bureaus to properly communicate with country offices so that they understood the benefits and challenges associated with the changes being brought about by Per-Capita but there was no evidence that this communication took place. The Per-Capita Information Note showing the estimated and per-unit costs of the services included in Per-Capita was only issued in early 2013. Due to the delay, offices were not able to properly plan and budget for their share of cost.	In coordination with the Information Technology Division and Organizational Budgeting Service, determine the internal communication lessons that can be learned from the Per-Capita implementation and develop an action plan for Per-Capita and for use in future similar projects.	Reporting Processes & Systems Institutional	Best practice Office of the Executive Director	30 September 2014

⁵ See Annex A for definition of audit terms.

Annex A – Audit definitions

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)⁶ 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	People:	Effective staff learning and skill development – Engaged workforce supported by capable leaders promoting a culture of commitment, communication & accountability – Appropriately planned workforce – Effective talent acquisition and management.
2	Partnerships:	Strategic and operational partnerships fostered – Partnership objectives achieved – UN system coherence and effectiveness improved – Effective governance of WFP is facilitated.
3	Processes & Systems:	High quality programme design and timely approval – Cost efficient supply chain enable timely delivery of food assistance – Streamlined and effective business processes and systems – Conducive platforms for learning, sharing and innovation.
4	Programmes:	Appropriate and evidence based programme responses – Alignment with Government priorities and strengthened national capacities – Lessons learned and innovations mainstreamed – Effective communication of programme results and advocacy.
5	Accountability & Funding:	Predictable, timely and flexible resources obtained – Strategic transparent and efficient allocation of resources – Accountability frameworks utilised – Effective management of resources demonstrated.

⁶ 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 categorisation 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.⁷

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 observations, if any, are communicated by the audit team directly to management, and are not included in this report.

⁷ 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. Monitoring the implementation of agreed actions

A 8. The Office of Internal Audit tracks all high and medium-risk observations. Implementation of observations will be verified through the Office of Internal Audit's system for monitoring the implementation of audit observations. The purpose of this monitoring system is to ensure that actions agreed with management 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.

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

AD	Active Directory Account
CO	Country Office
DSC	Direct Support Costs
ED	Executive Director
EMG	WFP’s Executive Management Group
ICT	Information Communication and Technology
OST	WFP’s Information Technology Department
PSA	Programme Support and Administrative
RMBB	WFP’s Budget and Programming Service
SAP	A software package named for its German developer, SAP AG.
WINGS	WFP’s corporate ERP system
WFP	World Food Programme