Audit of the operations in Yemen for the Office of the United Nations High Commissioner for Refugees

There was a need to strengthen controls over planning and resource allocation, programme monitoring and reporting, partnership management, security and safety, procurement and vendor management, non-food item distribution and warehouse management, and cash-based interventions

06 November 2019
Assignment No. AR2019/131/02
Audit of the operations in Yemen for the Office of the United Nations High Commissioner for Refugees

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of the operations in Yemen for the Office of the United Nations High Commissioner for Refugees (UNHCR). The objective of the audit was to assess whether the UNHCR Representation in Yemen was managing the delivery of services to its persons of concern in a cost effective manner and in accordance with UNHCR’s policy requirements, with due regard to the risks that it was exposed to in the context in which it was operating. The audit covered the period from 1 January 2017 to 31 December 2018 and included a review of: planning and resource allocation; programme monitoring and reporting; partnership management; inter-agency coordination; security and safety; procurement and vendor management; non-food item distribution and warehouse management; and cash-based interventions (CBI).

The Representation’s arrangements for inter-agency coordination were satisfactory. However, there was a need for the Representation to strengthen controls over planning and resource allocation, programme monitoring and reporting, partnership management, security and safety, procurement and vendor management, non-food item distribution and warehouse management and CBI.

OIOS made eight recommendations. To address issues identified in the audit, the UNHCR Representation in Yemen needed to:

- Integrate risk assessments and emergency preparedness measures into its planning cycle and decision-making processes;
- Adequately set and revise programme targets and validate the achievements based on the UNHCR’s results framework;
- Strengthen management oversight over partner selection and retention, procurement by partners, preparation of project partnership agreements and performance monitoring of projects;
- Ensure, in coordination with the Bureau for the Middle East and North Africa, that arrangements for funding internationally recognized government and de-facto authority institutions are reviewed and cleared by the Legal Affairs Service;
- Strengthen: (i) vendor and contract management; and (ii) supervisory oversight over ex-post facto approval cases and contract negotiations;
- Establish controls to validate the delivery of non-food and other items through regular reconciliation and post-distribution monitoring, and improve controls over security risks and supplement storage space in the warehouses; and
- Strengthen controls over CBI in particular by: (i) deploying a dedicated CBI officer; (ii) conducting a market assessment to calculate the minimum CBI expenditure basket; and (iii) conducting post-distribution monitoring for the winterization programme and cash assistance provided for refugees and asylum seekers.

UNHCR accepted the recommendations and has initiated action to implement them.
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APPENDIX I Management response
Audit of the operations in Yemen for the Office of the United Nations High Commissioner for Refugees

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the operations in Yemen for the Office of the United Nations High Commissioner for Refugees (UNHCR).

2. The UNHCR Representation in Yemen (hereinafter referred to as ‘the Representation’) was established in 1982. As of 31 December 2018, there were more than 2 million internally displaced persons (IDPs) in the country, of whom the Representation assisted approximately 1.2 million. An Inter-Agency Standing Committee (IASC) system-wide and UNHCR internal Level 3 Emergency on the IDP situation was declared on 1 July 2015. In addition, Yemen was hosting 264,371 refugees and 8,831 asylum-seekers. The vast majority (94 per cent) of the refugees had arrived from Somalia.

3. Following the escalation of the conflict in Yemen in March 2015 and the deteriorating security situation, the United Nations Department of Safety and Security (UNDSS) assessed the security level at its maximum of “6-Extreme”. As a result, United Nations international staff had to be evacuated from the country. As at the date of the audit, the evacuation status had been lifted, but there still remained limitations on the number of United Nations international personnel who could be on the ground.

4. The Representation had a Country Office in Sana’a, a Sub Office in Aden, four Field Offices in Hodeida, Ibb, Sa‘ada and Kharaz, a Field Unit in Mukalla, and a Hub Office in Amman, Jordan. As of December 2018, the Representation, headed by a Representative at the D-1 level, had 168 posts (35 international and 133 national posts) and 65 affiliate staff. For 2017 and 2018, the Representation’s expenditure was $70.1 million and $135.3 million respectively. It worked with 25 partners in 2017 and 24 in 2018. In 2017 and 2018, the total expenditure incurred by partners was $56.6 million.

5. Within the IASC framework of the humanitarian programme cycle, the Representation led the Protection, and Shelter/Non-Food Item (NFI)/Camp Coordination and Camp Management (CCCM) Clusters. The Representation also co-led the Refugee Migrants Multisector together with the International Organization for Migration. The Representation received humanitarian funding amounting to $54.1 million for 2017 and $126.8 million for 2018. Of this funding, Country-Based Pooled Funds (CBPF) accounted for $1.6 million for 2017 and $6.7 million for 2018 and the Central Emergency Response Fund (CERF) accounted for $6.0 million for 2018 (there was no funding from CERF in 2017). Funding from various governments amounted to $49.3 million for 2017 and $112.2 million for 2018. Funding from private donors amounted to $3.1 million and $1.9 million for 2017 and 2018 respectively.

6. Comments provided by UNHCR are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

7. The objective of the audit was to assess whether the UNHCR Representation in Yemen was managing the delivery of services to its persons of concern in a cost effective manner and in accordance with UNHCR’s policy requirements, with due regard to the risks that it was exposed to in the context in which it was operating.

8. The audit was included in the 2019 risk-based work plan of OIOS because of the risks related to the implementation of UNHCR activities in Yemen, in particular due to the complex operational context,
high security risks, and growing humanitarian needs. The audit was also part of an inter-agency coordinated audit of humanitarian operations for Yemen, as agreed by the United Nations Representatives of Internal Audit Services (UN-RIAS).

9. OIOS conducted the audit from February to June 2019. The audit covered the period from 1 January 2017 to 31 December 2018. Based on an activity-level risk assessment, the audit covered the following higher risk areas: (a) planning and resource allocation; (b) programme monitoring and reporting; (c) partnership management; (d) inter-agency coordination; (e) security and safety; (f) procurement and vendor management; (g) NFI distribution and warehouse management; and (h) cash-based interventions (CBI).

10. The audit methodology included: (a) interviews with key personnel; (b) review of relevant documentation; (c) analytical reviews of data, including financial data from Managing for Systems, Resources and People (MSRP), the UNHCR enterprise resource planning system, and performance data from Focus, the UNHCR results-based management system; (d) review of data extracted from proGres, the UNHCR registration and case management system; (e) sample testing of controls; (f) visits to the UNHCR offices in Sana’a and Aden and the offices of four partners implementing UNHCR projects, the Kharaz refugee camp, as well as the Representation’s two warehouses; and (g) interviews with beneficiaries.

11. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

III. AUDIT RESULTS

A. Planning and resource allocation

There was a need to integrate risk assessments and emergency preparedness measures into the planning and decision-making processes.

12. To manage risk of failure to provide vital assistance to persons of concern, the Representation needs to ensure: (a) their needs are comprehensively assessed; (b) the Representation’s goals and objectives are prioritized and established, aligned with UNHCR global strategic priorities and informed by timely and reliable data on the population of concern; (c) protection and operational strategies are defined; and (d) outputs and activities are defined, budgets are allocated, and deliverables are established. As an integral part of planning, the Representation is required to conduct an annual risk review and take appropriate emergency preparedness measures.

13. The Representation prepared annual operations plans for 2017 and 2018, which were aligned with the global strategic priorities and strategic objectives contained in the Humanitarian Response Plans. The Representation also developed a protection strategy as part of the operations plans and standard operating procedures (SOPs) for all key protection areas such as registration, refugee status determination, child protection, sexual and gender-based violence (SGBV), and IDP protection monitoring. The Representation conducted participatory needs assessments for 2017 and 2018, covering both refugees and IDPs, except in 2017 for IDPs residing in the North due to operational constraints with the authorities. The following control weaknesses were identified in respect of planning:

- While the Representation had taken measures to mitigate risks in implementing some activities, such as those relating to fluctuating exchange rates to implement CBI, it did not capture key operational risks in its risk register related to the difficulties in undertaking the verification of the
entire refugee population, programme monitoring due to the security situation and problems in procurement caused by the embargo on ports and airports; and
- As regards emergency preparedness and planning, the Representation had not implemented the required Minimum Preparedness Actions and Advanced Preparedness Actions or prepared a contingency plan for the IDP emergency.

14. These deficiencies were caused by inadequate prioritization by management of the need to integrate risk assessments and emergency preparedness measures into its planning cycle and decision-making processes.

(1) The UNHCR Representation in Yemen should integrate risk assessments and emergency preparedness measures into its planning cycle and decision-making processes.

UNHCR accepted recommendation 1 and stated that the Representation’s management was reviewing an updated risk register with section and unit heads prior to the approval and uploading in the system and an interagency preparedness and contingency plan for IDPs was at the final stage of completion. Recommendation 1 remains open pending receipt of: (i) the updated risk register; (ii) Minimum and Advanced Preparedness Actions; and (iii) a contingency plan for IDPs.

B. Programme monitoring and reporting

There was a need to set realistic programme targets and validate the achievements based on the results framework

15. In order to ensure that programme performance is effectively managed: (a) their achievements and impact should be assessed and reported on in Focus; (b) corrective action is taken where needed; (c) regular field missions and interactions with persons of concern are conducted; and (d) periodic evaluations are done and lessons learned are incorporated into future programming.

16. The Representation was not systematically validating its achievements, including those of partners implementing UNHCR projects. For example, the year-end results for 2017 and 2018 were validated for only 1 out of 58 project partnership agreements (PPAs). In 2018, while the Representation planned to undertake, as a matter of priority, 32 performance monitoring visits, only 5 were conducted.

17. In 2016, the Representation introduced ActivityInfo, a data collection and reporting tool for partners. However, the use of the tool was not effective as: (i) the Representation did not adequately set and revise targets for some underperforming areas, and in cases where the targets were revised, there was no documentary evidence supporting collective decisions taken by the Representation’s Multi-Functional Team to revise such targets. For example, for refugee programmes, the number of household sanitary facilities/latrines constructed at the end of 2017 was 51, when the target was 500. Notwithstanding such a shortfall in performance, for 2018, the target was set at 600, which was not feasible; (ii) some reported results for refugee programmes for 2017 were unrealistic, and for six indicators the results were not reported on such as “number of households receiving core relief items” and “number of reported incidents of SGBV”; and (iii) targets bore no correlation with the baseline. For example, the target for “number of refugees per drop-hole in communal latrines” was set at 100 persons per drop-hole in 2017 when its baseline was 31.8.

18. These weaknesses were because the Representation was not adopting a systematic target setting and monitoring approach while considering limitations caused by the security situation. OIOS concluded that the Representation was unable to demonstrate that its results framework was reporting effectively on
the extent of achievement of the essential needs of persons of concern, exposing UNHCR to reputational risk.

(2) The UNHCR Representation in Yemen should develop and implement an action plan to adequately set and revise programme targets and validate the achievements based on UNHCR’s results framework.

UNHCR accepted recommendation 2 and stated that for 2019, a performance monitoring plan was in place, and targets were regularly revised based on progress in implementation. Given the uncertainty of funding, subsequent increases in the available budget results in incremental implementation, hence regular target revisions were also carried out. Recommendation 2 remains open pending receipt of: (i) a copy of the performance monitoring report covering the fourth quarter of 2019; and (ii) the 2019 Key Indicator Report.

C. Partnership management

There was a need to strengthen management oversight over implementing partners

19. In order to achieve expected programme and project results through the use of implementing partners, the Representation needs to: (a) select or retain partners through an Implementing Partnership Management Committee (IPMC) to ensure that the process is objective, transparent, consistent and timely; (b) sign PPAs before the start of the project year and transfer instalments in a timely manner; and (c) monitor project activities through a risk based and multi-functional approach.

20. The Representation worked with 25 and 24 partners and concluded 31 and 27 PPAs in 2017 and 2018, respectively. IPMC, whose composition was updated five times during the audit period, convened five times. However, one new partner selected in 2018 and provided a budget of $1.0 million was not subject to IPMC’s deliberations because of lack of understanding on whether a governmental institution should be subject to such a review. In addition, the Representation only conducted a desk review for two of the nine PPAs for partners retained from 2017 to 2018. The Representation also did not assess the capacity and competence of its CBI partners in delivering such assistance.

21. Procurement delegated to partners totalled $24.6 million for 2017 and 2018. The Representation delegated procurement in excess of $100,000 to eight partners that were not pre-qualified to conduct procurement of this size on behalf of UNHCR. At the time of the audit, none of these eight partners had submitted an application to UNHCR for pre-qualification. In one case, the Representation assigned to a partner the construction of classrooms and latrines in a school and prepared the bills of quantity, but left the partner to evaluate the bids. A review of the technical evaluation process noted that the criteria used by the partner were vague and the successful vendor’s bid was only $5 lower than the approved budget for this procurement of $126,650. This raised concerns about the transparency and competitiveness of the process.

22. The Representation did not sign any PPAs before the expected project start dates, and partner budgets in some PPAs included an incorrect allocation of funds. For example: (a) five PPAs budgeted incentives totalling $86,542 for government officials or local authorities under “other individual contractors” without a formal agreement and two PPAs also budgeted staff costs of $171,313 under this account instead of “partner personnel cost-national”; (b) four PPAs budgeted costs for security/guard totalling $67,506 under “other individual contractors” instead of under “security services”; and (c) one PPA budgeted quick impact projects amounting to $91,369 under “other individual contractors” instead of a specific account “quick impact activities”.

4
23. Although the Representation conducted financial verification visits to each partner at least once a year, it had risk-based project monitoring plans for only 38 of the 58 PPAs concluded in the audit period. A review of these 38 monitoring plans noted that 21 did not have dates and signatures to confirm whether they had been agreed with partners. Also, for the 58 PPAs, the Representation conducted performance verifications for only 28 PPAs, and in 20 of these, the performance verification covered only the first quarter of each year.

24. These control deficiencies were caused by inadequate management oversight over implementing partners. Given the difficult operational context in Yemen, OIOS is of the view that the Representation should have implemented adequate mechanisms to mitigate the risk of failure to achieve its intended project objectives and to obtain the best value from partner implemented projects.

(3) The UNHCR Representation in Yemen should strengthen management oversight over partner selection and retention, procurement by partners, preparation of project partnership agreements and performance monitoring of projects.

UNHCR accepted recommendation 3 and stated that: (i) the Representation was taking actions to strengthen controls for risk mitigation; (ii) adequate procedures were planned for selection/retention of partners for 2020; (iii) the Representation required application for pre-qualification status for partners who would exceed $100,000 procurement value; (iv) the Supply Unit was well represented in the multi-functional team, and in 2019 had been providing close guidance and coaching for partner procurement activities; and (v) project performance monitoring plans were in place.

Recommendation 3 remains open pending receipt of evidence of strengthened management oversight of: partner selection and retention, procurement by partners, preparation of project partnership agreements and performance monitoring of projects.

Arrangements for funding entities belonging to internationally recognized government and de facto authority needed to be reviewed and cleared by the Legal Affairs Service

25. OIOS had recommended in its 2016 audit of the operations in Yemen (Report number 2017/018) that the Representation enter into PPAs with government entities, instead of a using Memorandum of Understanding (MoU), which had previously been the case. The Representation confirmed in June 2018 that since the expiry of the previous MoU in May 2017, it had not signed any new MoUs.

26. However, during this audit, OIOS noted that in October 2018, the Representation signed a letter of agreement with a de facto authority entity to oversee the activities of the entity that it had previously entered into an MoU with. Under this letter of agreement, it paid a total of $184,350 to the two entities as incentives and operational costs to start reception and registration activities for asylum seekers. While the Representation consulted UNHCR headquarters, it did not obtain clearance from the Legal Affairs Service (LAS), as expected. In addition, Sub-Office Aden funded two other internationally recognized governmental entities indirectly through partners. For 2017 and 2018, operational costs and incentives paid by the Sub-Office totalled $450,248. For the two years, Country Office Sana’a also indirectly paid $11,098 to one of the two entities. For another internationally recognized governmental institution with whom the Representation had signed a PPA, payments totalling $268,469 were made by the Representation indirectly through other partners.

27. While noting the necessity of funding certain entities belonging to the internationally recognized government and de facto authority under the unique and difficult operating environment, the Representation should have coordinated and communicated with LAS to seek advice on possible alternatives or measures to mitigate the associated risks.
D. Inter-agency coordination

Controls over activities related to inter-agency coordination were satisfactory

28. In order for all humanitarian actors to cooperate to achieve collective results, the UNHCR Representative, as a member of a national Humanitarian Country Team (HCT), is required to be involved in developing overall strategic objectives of the emergency operation, and the Representation, as cluster lead agency, is required to: (a) ensure that coordination mechanisms are established and properly supported; (b) serve as first point of call for clusters led by UNHCR with regard to the Government and the Humanitarian Coordinator; (c) raise cluster-specific issues, concerns and challenges with the Humanitarian Coordinator and the HCT; and (d) act as “provider of last resort”. The Representation is also required to ensure that proper mechanisms for monitoring and reporting are in place for donor funding, in particular from Humanitarian Pooled Funds.

29. The Representation, as the Protection Cluster Lead and Shelter/NFI/CCCM Cluster Lead, developed their terms of reference. The Protection Cluster had a Protection Strategic Advisory Group whose ToR was well developed. Under the overall guidance of the United Nations Office for the Coordination of Humanitarian Affairs, the Representation developed chapters in the Humanitarian Needs Overview and the Humanitarian Response Plan. In preparation for the 2019 Humanitarian Needs Overview, a Multi-Cluster Location Assessment was jointly conducted by all clusters. As a member of the Technical Working Group, the Representation contributed to all phases of the exercise and was one of the facilitators during the training of enumerators. The Representation’s senior management led by the Representative and two Senior Cluster Coordinators participated in all HCT meetings. They intervened during the national and sub-national meetings as necessary; in particular, on issues affecting UNHCR. For example, the Representation supported the integrated response in IDP hosting sites in the South, together with other cluster lead agencies. The Representation’s reporting arrangements related to both CBPF and CERF were also satisfactory. Based on the above, OIOS concluded that the controls over activities related to inter-agency coordination were satisfactory.

E. Security and safety

(4) The UNHCR Representation in Yemen, in coordination with the Bureau for the Middle East and North Africa, should ensure that arrangements for funding entities belonging to the internationally recognized government and de facto authority are reviewed and cleared by the Legal Affairs Service.

UNHCR accepted recommendation 4 and stated that three PPAs with internationally recognized government and de-facto authority entities were in the final stages of negotiations, and consultations were ongoing with LAS and the Implementing Partnership Management Service on the conclusion of these PPAs and would continue for any potential funding arrangements with government entities which deviated from standard PPAs. Recommendation 4 remains open pending receipt of evidence that LAS had reviewed and cleared these funding arrangements.
F. Procurement and vendor management

There was a need to strengthen vendor and contract management

34. In order to ensure the integrity of the procurement process, it is essential for the Representation to: (a) prepare an annual procurement plan according to identified needs; (b) establish an effective vendor management system; (c) initiate timely procurement activities; and (d) establish a Local Committee on Contracts (LCC) to ensure adequate oversight over procurement activities. The Representation issued 492 purchase orders totalling $54.1 million from 1 January 2017 to 31 December 2018. OIOS reviewed 37
purchase orders and related contracts totalling $22.4 million (41 per cent of all procurement) and minutes of all 21 LCC meetings held during the period.

35. The Representation prepared annual procurement plans for 2017 and 2018, but their effectiveness was limited. For example, 24 cases totalling $47.9 million submitted to the Headquarters Committee on Contract included 10 cases for $4.9 million requiring ex-post facto notification, which could have been avoided with better planning. The Representation was also not monitoring contracts as excess expenditure of $48,905 on a vehicle maintenance contract incurred due to the absence of monitoring of issuance of accumulated purchase orders against the contract value.

36. The Representation, as part of the procurement process, was not documenting contract negotiations to ensure that they were conducted transparently and obtained best value. For example, in 2017, the LCC and the Headquarters Committee on Contracts approved the construction of 1,500 shelter units at a total contract value of $600,000 and tasked the Supply Unit to engage in further negotiations with 12 shortlisted contractors to agree with them a fixed cost of $400 for each unit. Although these negotiations were successful, they were not documented.

37. The Representation had registered 858 approved vendors in its vendor database. A review of the database noted that nine vendors had duplicate records. The Representation had also not implemented the new requirements set in the “Vendor and Contract Management Operational Guidance Note” which came into force in June 2018. For instance, the Representation’s Vendor Review Committee did not oversee issues arising from poor performing vendors against their contractual obligations, and vendor performance evaluations were not conducted although mandatory for all commercial contracts exceeding $4,000.

38. These control deficiencies were caused by inadequate management oversight over procurement and vendor management, and limited awareness of the Representation’s staff of the new “Vendor and Contract Management Operational Guidance Note”. Since the last OIOS audit conducted in 2016 which made a recommendation on procurement and vendor management, limited improvements had been made, although the Representation provided assurance that adequate action had been taken to strengthen controls. As a result of the recurring deficiencies, the Representation was exposed to the risk of failure to achieve its intended objectives and obtain the best value from goods and services being procured.

| (6) The UNHCR Representation in Yemen should develop and implement an action plan to strengthen: (i) vendor and contract management; and (ii) supervisory oversight over ex-post facto approval cases and contract negotiations. |

UNHCR accepted recommendation 6 and stated that: (i) the vendor database was reviewed to deactivate the duplicate vendors; (ii) vendor performance evaluation was in progress as per the operational guidelines; and (iii) to avoid the post facto cases, the Representation had developed a comprehensive contract management tool to ensure monitoring of contracts. Recommendation 6 remains open pending receipt of evidence that duplicate vendors are deactivated and samples of vendor performance evaluations.

G. Non-food items distribution and warehouse management

There was a need to validate the delivery of NFI s and strengthen controls over warehouse management.

39. In order to ensure effective delivery of NFI s, the Representation needs to: (a) establish beneficiary targeting criteria; (b) develop a distribution plan that is suitably communicated to recipients; (c) conduct
post distribution monitoring and reconciliations to ensure items reach the intended beneficiaries; and (d) effectively manage warehouses with appropriate record keeping and physical controls.

40. The Representation distributed NFIs and Emergency Shelter Kits (ESKs) totalling $47.3 million ($32.3 million in 2018 and $15.0 million in 2017). For refugees, it directly and through partners distributed hygiene items such as sanitary napkins and soaps and other NFIs such as blankets, mattresses, buckets, sleeping mats, kitchen sets, mosquito nets and solar lamps. In respect of NFIs and ESKs distribution to IDPs, the Representation focused on the emergency and urgent needs and prioritized new displacement waves. The Representation also developed SOPs for NFIs and ESKs distribution aligned with the guidelines for the distribution of Shelter/NFI Kits prepared by the Shelter/NFI/CCCM Cluster and ensured the beneficiary selection for refugees and IDPs was based on pre-defined criteria. Nevertheless, the following control weaknesses were identified in NFI distribution:

- For 2017, the Representation did not report on the beneficiaries of NFI distribution in its Key Indicator Report, except for the number of beneficiaries who received sanitary materials and hygiene supplies;
- The Representation did not examine the reliability of results of post-distribution monitoring conducted by partners to inform its interventions. For example, a partner conducted post-distribution monitoring and reported that 85 per cent of the respondents had not been consulted in advance over items to be distributed. However, OIOS noted that 97 per cent of respondents were men, while the distributed items had included items for female hygiene and therefore, the results may not be reliable; and
- The Representation did not conduct reconciliations against waybills for items delivered from the warehouses and items distributed to beneficiaries. For direct implementation, it also did not conduct post-distribution monitoring, except for IDP programmes in Aden, to assess the effectiveness, appropriateness and coverage of the interventions.

41. As of 31 December 2018, the Representation operated warehouses in Sana’a, Aden, Hodeida, and Saada with a total stock value of $14.6 million. The Representation developed SOPs for warehouse and transport management, established local supply frame agreements for procurement of the standard packages, and participated in an inter-agency stock and warehouses inventory exercise. Nevertheless, OIOS’ visit to two warehouses in Sana’a and Aden and one distribution store run by a partner in Aden identified the following control weaknesses in warehouse management:

- In December 2018, the Representation lost inventory estimated at $673,827 in the Hodeida warehouse due to political violence. The Representation filed an insurance claim to recover the funds;
- For the warehouses in Aden and Sana’a, the Representation had yet to install a camera surveillance system; and
- Because of insufficient warehouse space, the Representation had stocks of timber in Sana’a and Aden valued at $1.1 million (as of 31 December 2018), which was kept outdoors and exposed to potential adverse environmental hazards.

42. The above weaknesses were due to inadequate management oversight over NFIs distribution and warehouse management. Given that this deficiency had continued to occur since the previous audit conducted by OIOS in 2016, the possibility that some NFIs and ESKs may not have reached the intended beneficiaries could not be ruled out.
The UNHCR Representation in Yemen should develop and implement an action plan to: (i) establish controls to validate the delivery of non-food and other items through regular reconciliation and post-distribution monitoring; and (ii) improve controls over security risks and supplement storage space in the warehouses.

UNHCR accepted recommendation 7 and stated that: (i) post-distribution monitoring was regularly carried out through partners; (ii) identification of a suitable third-party monitoring company was underway; (iii) reconciliation of NFI distributions was carried out at the distribution partner level; and (iv) the Representation was also working with the new warehousing service provider to implement the required security measures in North while all security measures had been completed in the South. Recommendation 7 remains open pending implementation of an action plan to: (i) establish controls to validate the delivery of non-food and other items through regular reconciliation and post-distribution monitoring; and (ii) improve controls over security risks and supplement storage space in the warehouses.

H. Cash-based interventions

There was a need to strengthen controls over CBI

43. In order to ensure effective delivery of CBI, it is essential to adequately plan and design the CBI programme by: (a) undertaking a risk assessment and feasibility study of such a programme, including a comparative advantage assessment of direct implementation versus implementation by partners; (b) conducting a market analysis; (c) developing SOPs for CBI governing the selection of beneficiaries, value of transfers and operational modalities; (d) developing financial and protection related controls; and (e) monitoring the performance of CBI and assessing the impact of the interventions.

44. The Representation spent $11.3 million in 2017 and $43.4 million in 2018 on CBI programmes that assisted both IDPs and refugees. Of the total CBI expenditure for 2017 and 2018, the Representation directly implemented 15.6 per cent and 97.1 per cent respectively and the remaining amounts through partners. The Representation implemented Multi-Purpose Cash Assistance (MPCA) and cash assistance for rental subsidies both directly and through partners. In addition, the Representation directly implemented winterization cash assistance. The Representation’s direct implementation was conducted through a financial service provider. In 2017 and 2018, the Representation delegated CBI, mainly for emergency cash assistance, to 10 and 14 partners respectively.

45. For both direct implementation and implementation through partners, the Representation had a defined CBI workflow covering the generation and approval of beneficiary lists, payment process, beneficiary notification, collection process, and reconciliations. In addition, the Representation established beneficiary selection criteria for its different cash assistance programmes and regularly verified beneficiary lists to avoid duplication and fraud. Furthermore, it established a complaints mechanism and regularly reviewed complaints submitted. Nevertheless, OIOS review noted the following weaknesses:

- The Representation made emergency cash payments through partners. However, the Representation did not assess the capacity and competence of the partners in delivering CBI during their selection and retention process;
- The Representation had not conducted a market analysis to validate the minimum expenditure basket to set payment amounts for its different cash assistance programmes;
- The Representation’s SOPs on CBI for direct implementation covered MPCA and cash assistance for rental subsidies but not cash assistance for winterization, on which the Representation spent $1.4 million in 2017 and $6.5 million in 2018; and
• Although the Representation conducted post distribution monitoring on MPCA and rental subsidies programmes for IDPs, no post distribution monitoring was conducted on the winterization programme for IDPs and cash assistance targeting refugees and asylum seekers, although post distribution monitoring was conducted for the winterization programme for IDPs, while audit was still in progress. Moreover, the Representation had not analyzed lessons learned from its different CBI programmes to better inform the future design of the programme.

46. The weaknesses related to lack of SOPs and insufficient post distribution monitoring. The previous OIOS audit conducted in 2016 made a recommendation in this regard, and the Representation subsequently confirmed its implementation. These shortcomings occurred because of the absence of a dedicated technical CBI officer to manage the expanded CBI programme, and inadequate management oversight over CBI. As a consequence, the Representation was exposed to the risk that its CBI may not achieve the intended objectives.

(8) The UNHCR Representation should strengthen controls over cash-based interventions (CBI) by: (i) deploying a dedicated CBI officer; (ii) conducting a market assessment to calculate the minimum CBI expenditure basket; (iii) conducting post-distribution monitoring for the winterization programme and cash assistance provided for refugees and asylum seekers; (iv) analyzing lessons learned; and (v) assessing the capacity and competence of CBI partners during their selection and retention process.

UNHCR accepted recommendation 8 and stated that the Representation would propose the creation of a dedicated Programme CBI Officer position and a National Officer position from November 2019. Also, the Representation stated that regular review of the minimum survival expenditure basket was carried out by the interagency Cash and Market Working Group, based on market assessment. Recommendation 8 remains open pending receipt of: (i) evidence indicating the creation of a dedicated CBI post; (ii) market assessment to calculate the CBI minimum expenditure basket; (iii) SOPs for its winterization programme; (iv) post-distribution monitoring on CBI for refugees and asylum seekers; and (v) capacity assessment of CBI partners during the selection and retention process.

IV. ACKNOWLEDGEMENT

47. OIOS wishes to express its appreciation to the management and staff of UNHCR for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns
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Office of Internal Oversight Services
### STATUS OF AUDIT RECOMMENDATIONS

Audit of the operations in Yemen for the Office of the United Nations High Commissioner for Refugees

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<td>The UNHCR Representation in Yemen should integrate risk assessments and emergency preparedness measures into its planning cycle and decision-making processes.</td>
<td>Important</td>
<td>O</td>
<td>Submission to OIOS of: (i) the updated risk register; (ii) Minimum and Advanced Preparedness Actions; and (iii) a contingency plan for IDPs.</td>
<td>31 December 2019</td>
</tr>
<tr>
<td>2</td>
<td>The UNHCR Representation in Yemen should develop and implement an action plan to adequately set and revise programme targets and validate the achievements based on UNHCR’s results framework.</td>
<td>Important</td>
<td>O</td>
<td>Submission to OIOS of: (i) performance monitoring reports covering the fourth quarter of 2019; and (ii) the 2019 Key Indicator Report.</td>
<td>31 December 2019</td>
</tr>
<tr>
<td>3</td>
<td>The UNHCR Representation in Yemen should strengthen management oversight over partner selection and retention, procurement by partners, preparation of project partnership agreements and performance monitoring of projects.</td>
<td>Important</td>
<td>O</td>
<td>Submission to OIOS of evidence of strengthened management oversight of: partner selection and retention, procurement by partners, preparation of project partnership agreements and performance monitoring of projects.</td>
<td>31 January 2020</td>
</tr>
<tr>
<td>4</td>
<td>The UNHCR Representation in Yemen, in coordination with the Bureau for the Middle East and North Africa, should ensure that arrangements for funding entities belonging to the internationally recognized government and de facto authority are reviewed and cleared by the Legal Affairs Service.</td>
<td>Important</td>
<td>O</td>
<td>Submission to OIOS of evidence that the Legal Affairs Service has reviewed and cleared these funding arrangements.</td>
<td>30 November 2019</td>
</tr>
<tr>
<td>5</td>
<td></td>
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</tr>
</tbody>
</table>

1 Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

2 Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

3 C = closed, O = open

4 Date provided by UNHCR in response to recommendations.
## STATUS OF AUDIT RECOMMENDATIONS

Audit of the operations in Yemen for the Office of the United Nations High Commissioner for Refugees

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Status</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>The UNHCR Representation in Yemen should develop and implement an action plan to strengthen: (i) vendor and contract management; and (ii) supervisory oversight over ex-post facto approval cases and contract negotiations.</td>
<td>Important</td>
<td>Submission to OIOS of evidence that duplicate vendors were deactivated and samples of vendor performance evaluations.</td>
</tr>
<tr>
<td>7</td>
<td>The UNHCR Representation in Yemen should develop and implement an action plan to: (i) establish controls to validate the delivery of non-food and other items through regular reconciliation and post-distribution monitoring; and (ii) improve controls over security risks and supplement storage space in the warehouses.</td>
<td>Important</td>
<td>Submission to OIOS evidence of implementation of an action plan to: (i) establish controls to validate the delivery of non-food and other items through regular reconciliation and post-distribution monitoring; and (ii) improve controls over security risks and supplement storage space in the warehouses.</td>
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<td>8</td>
<td>The UNHCR Representation should strengthen controls over cash-based interventions (CBI) by: (i) deploying a dedicated CBI officer; (ii) conducting a market assessment to calculate the minimum CBI expenditure basket; (iii) conducting post-distribution monitoring for the winterization programme and cash assistance provided for refugees and asylum seekers; (iv) analyzing lessons learned; and (v) assessing the capacity and competence of CBI partners during their selection and retention process.</td>
<td>Important</td>
<td>Submission to OIOS of: (i) evidence indicating the creation of a dedicated post for CBI; (ii) market assessment to calculate the CBI minimum expenditure basket; (iii) SOPs for its winterization programme; (iv) post-distribution monitoring on CBI for refugees and asylum seekers; and (v) capacity assessment of CBI partners during the selection and retention process.</td>
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</table>
APPENDIX I

Management Response
## Management Response

**Audit of the operations in Yemen for the Office of the United Nations High Commissioner for Refugees**

<table>
<thead>
<tr>
<th>Rec. no.</th>
<th>Recommendation</th>
<th>Critical¹/ Important²</th>
<th>Accepted? (Yes/No)</th>
<th>Title of responsible individual</th>
<th>Implementation date</th>
<th>Client comments</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>The UNHCR Representation in Yemen should integrate risk assessments and emergency preparedness measures into its planning cycle and decision-making processes.</td>
<td>Important</td>
<td>Yes</td>
<td>Project Control Officer</td>
<td>December 2019</td>
<td>The Representation has accepted the recommendation and taking actions to address it. Some of the uncertainties stemming from the context mentioned were taken into consideration when formulating risks in the risk register (e.g. collapse of local market, access constraints resulting in weak monitoring). The Representation's risk register is undergoing an update following the Mid-Year Review and it will also be reviewed at the time of detailed planning as per UNHCR's ERM Policy. The Operation has completed updating the Risk Register offline and Management is currently reviewing it with section and unit heads prior to approval and uploading in the system. As a cluster lead agency and member of the UNCT and HCT, UNHCR fully participates in the interagency Emergency Response Planning following IASC guidelines. Accordingly, with respect to preparedness for IDP situations, UNHCR contributes to preparedness efforts led by the RC or HC. A country-wide interagency preparedness and contingency plan is in the final stages of completion, including best- and worst-case scenarios and response strategies. The final plan including detailed preparedness actions from UNHCR and the clusters is expected by November 2019.</td>
</tr>
</tbody>
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¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.
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<td>2</td>
<td>The UNHCR Representation in Yemen should develop and implement an action plan to adequately set and revise programme targets and validate the achievements based on UNHCR’s results framework.</td>
<td>Important</td>
<td>Yes</td>
<td>Senior. Programme Officer</td>
<td>December 2019</td>
<td>With the above, the representation aims to fully address the recommendation by 31 December 2019. The Representation has accepted the recommendation and has addressed it. For 2019, a performance monitoring plan is in place, and targets are regularly revised based on the progress with implementation. Given the uncertainty of funding, subsequent increases in the available budget results in incremental implementation, hence regular target revisions are also carried out.</td>
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<td>The UNHCR Representation in Yemen should strengthen management oversight over partner selection and retention, procurement by partners, preparation of project partnership agreements and performance monitoring of projects.</td>
<td>Important</td>
<td>Yes</td>
<td>Senior. Programme Officer</td>
<td>January 2020</td>
<td>The Representation has accepted the recommendation and is taking actions to strengthen controls for adequate risk mitigation. The IPMC composition is regularly updated, and adequate procedures are planned for selection/retention of partners for 2020. The Representation requires application for PQP status for partners who would exceed $100,000 procurement value. Given the incremental implementation approach that is expected to be necessary for 2020 as well, the Representation cannot foresee with complete accuracy which partners may need to exceed this procurement limit. Any partner that may be exceptionally requested to procure beyond the threshold without PQP status, will apply for PQP status within 6 months.</td>
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<td>4</td>
<td>The UNHCR Representation in Yemen, in coordination with the Bureau for the Middle East and North Africa, should ensure that arrangements for funding entities belonging to the internationally recognized government and de facto authority are reviewed and cleared by the Legal Affairs Service.</td>
<td>Important</td>
<td>Yes</td>
<td>Senior Programme Officer</td>
<td>November 2019</td>
<td>The Representation accepts the recommendation and is acting to address it. Three PPAs with internationally recognized government and de-facto authority entities are in the final stages of negotiations. Consultations are ongoing with LAS and IPMS on the conclusion of these PPAs and will continue for any potential funding arrangements with government entities which deviate from standard PPAs.</td>
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## Management Response

**Audit of the operations in Yemen for the Office of the United Nations High Commissioner for Refugees**

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| 6        | The UNHCR Representation in Yemen should develop and implement an action plan to strengthen: (i) vendor and contract management; and (ii) supervisory oversight over ex-post facto approval cases and contract negotiations. | Important | Yes | Supply Officer | 31 December 2019 | The Representation has accepted the recommendation and is following up accordingly.  
(i) The vendor database is reviewed regularly to inactivate the duplicate vendors. Vendor performance evaluation is in progress as per the operational guidelines. Contract management is being addressed through an enhanced contract tacking tool.  
(ii) To avoid the post facto cases, the operation has developed the comprehensive contract management tool to ensure proper monitoring of contracts.  
With the above, the representation aims to fully address the recommendation by 31 December 2019. |
| 7        | The UNHCR Representation in Yemen should develop and implement an action plan to: (i) establish controls to validate the delivery of non-food and other items through regular reconciliation and post-distribution monitoring; and (ii) improve controls over security risks and supplement storage space in the warehouses. | Important | Yes | Senior Programme Officer, Field team and Supply Officer | February 2020 | The Representation has accepted the recommendation and confirms partial implementation of the below actions.  
PDM is regularly carried out, through partners or third-party monitoring. Identification of a suitable third-party monitoring company is underway, and operation is hoping to place the contract before end of November. Reconciliation of NFI distributions is carried out at the distribution partner level, and the Representation will follow other relevant guidance once issued.  
The Operation is also working with the new warehousing service provider to implement the required security |
## Management Response

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<td>Important</td>
<td>Yes</td>
<td>Snr. Programme Officer</td>
<td>January 2020</td>
<td>The Representation has accepted the recommendation and confirms that actions to strengthen CBI processes are underway. (i) During the detailed planning process Operation will analyze the funding situation and will propose the creation of a dedicated International Programme CBI Officer position. In addition, the Representation, intends to create a National Officer position from November 2019 to support the operationalization of SOPs and strengthen CBI controls in the operation. (ii) Establishment and regular review of the minimum survival expenditure basket is carried out by the interagency Cash and Market Working Group, based on market assessment. Cluster guidance on the CBI transfer amounts are also set based on market assessments. The Representation bases the decision on the cash transfer value on these expert assessments. (iii) At the time of the audit, the winterization cash assistance in the South was still ongoing, and the post-distribution monitoring for the same was completed after the audit. (iv) Analysis of lessons learnt is ongoing both internally and as part of the Cash and Market Working Group. These lessons learnt are informing the revised SOPs for the management of all cash assistance programs for all assistance types. The revised UNHCR SOPs are operational.</td>
</tr>
</tbody>
</table>

measures in North while all security measures has been completed in the South.

With the above, the representation aims to fully address the recommendation by 28 February 2020.
Management Response

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<td>(v) Based on the Administrative Instructions for the implementation of Cash-Based-Interventions, the preferred implementation modality for CBI is direct implementation. The Representation is following this guidance, hence there is no comparative advantage assessment. With the above, the Representation aims to fully address the recommendation by 31 January 2020.</td>
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</tbody>
</table>