



INTERNAL AUDIT DIVISION

REPORT 2017/018

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

The Representation needed to strengthen
controls over emergency preparedness and
response, management of projects
implemented by partners, shelter and cash
assistance programmes, procurement and
vendor management, financial management,
and security and staff safety

4 April 2017

Assignment No. AR2016/131/05

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

EXECUTIVE SUMMARY

The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the Office of the United Nations High Commissioner for Refugees (UNHCR) operations in Yemen. The audit covered the period from 1 January 2015 to 30 June 2016 and included a review of: (a) emergency preparedness and response, including planning, inter-agency coordination, and distribution of emergency non-food items (NFIs); (b) partnership management; (c) provision of basic needs and essential services through cash assistance and shelter programmes; (d) financial tracking and reporting; (e) procurement and vendor management; and (f) security and staff safety.

The Representation needed to strengthen controls over emergency preparedness arrangements, distribution of emergency NFIs, the management of projects implemented through partners, and the management of cash assistance programmes. The Representation also needed to build capacity of partners undertaking shelter activities and ensure adequate supervision and oversight arrangements over procurement, vendor management and financial management. Security measures also needed to be enhanced to ensure compliance with Minimum Operating Security Standards.

OIOS made 10 recommendations. To address issues identified in the audit, the Representation needed to:

- Develop contingency plans for critical programme activities, verify the refugee population in Yemen, and update the standard operating procedures for core protection activities;
- Strengthen controls over NFI distributions, including through remote monitoring, and make an insurance claim to recover the value of NFIs lost estimated at \$179,000;
- Ensure that Project Partnership Agreements are entered into with government entities and the referral health care costs incurred by partners are adequately monitored;
- Consolidate the standard operating procedures for cash assistance, pre-approve all beneficiary selection lists, review distribution lists signed by beneficiaries, reconcile cash assistance payments with the beneficiary lists, and undertake post-distribution assessments of the impact of cash assistance programmes;
- Regularly assess the adequacy of internal control systems of partners implementing shelter projects and train and build capacity of partners undertaking shelter activities;
- Ensure that: (a) vendor performance is assessed and vendor database is reviewed; (b) excessive use of ex-post facto notifications and waivers of competitive bidding is avoided; and (c) technical capacity of members of the Local Committee on Contracts is enhanced;
- Ensure that supporting documentation is complete before payments are approved and long-standing receivables are liquidated, and take action to recover an overpayment of \$14,599 made to a vendor; and

UNHCR accepted the recommendations and has initiated action to implement them.

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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. It is headed by a Representative at the D-1 level. The Representative reports to the Director of the Bureau for the Middle East and North Africa. The Representation’s Country Office is located in Sana’a. The Representation also has a Sub-Office in Aden, three Field Offices in Hudaydah, Ibb and Kharaz, and three Field Units in Mayfa’a, Sa’ada and Amran/Sana’a.
3. Following the escalation of the conflict in Yemen in March 2015, and the deteriorating security situation in the country resulting in the United Nations Department of Safety and Security assessing the security threat level at the maximum level of 6, international United Nations staff were evacuated from Yemen. An Inter-Agency Standing Committee system-wide and UNHCR internal level-3 emergency situation was declared in Yemen on 1 July 2015.
4. As of June 2016, the population of persons of concern to UNHCR in Yemen was 3,433,910. It comprised 3,154,572 internally displaced persons (IDP) and returnees and 279,338 refugees and asylum seekers, mostly located in host communities and the Al Kharaz camp. During 2015-2016, the most significant objectives of the Representation’s IDP operations were: provision of non-food items (NFIs); establishment of shelter and infrastructure; strengthening of services to persons with specific needs; and optimizing logistics and supply activities. For the refugee operations, the key objectives were: provision of health services; strengthening of services to persons with specific needs; and improvement of education and reception conditions.
5. The Representation’s total expenditure in 2015 was \$59.5 million. For 2016, its budget was \$69.5 million of which, it had spent \$27.0 in the six months to 30 June 2016. The Representation worked with 19 partners in 2015 through which it spent \$21.4 million. In 2016, it worked with 21 partners who were allocated a total project budget of \$29.7 million. The Representation spent \$23.8 million through direct implementation in 2015 and budgeted \$23.0 million for direct implementation in 2016.
6. Comments provided by the Representation are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

7. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over UNHCR operations in Yemen.
8. The audit was included in the 2016 risk-based internal audit work plan of OIOS due to the risks associated with management of the level-3 emergency operation amidst political and security instability in Yemen.
9. OIOS conducted the audit between August and November 2016. The audit covered the period from 1 January 2015 to 30 June 2016. Based on an activity-level risk assessment, the audit covered higher risk processes and activities pertaining to the operations in Yemen, which included: (a) emergency preparedness and response, including planning, inter-agency coordination, and distribution of emergency

NFIs; (b) partnership management; (c) provision of basic needs and essential services through cash assistance and shelter programmes; (d) financial tracking and reporting; (e) procurement and vendor management; and (f) security and staff safety.

10. As the audit team did not get the visas to travel to Yemen, the audit was conducted remotely in Jordan, Amman, where the Representation had a temporary office for the staff who could not travel to Yemen. As a result, the audit team could not physically visit project sites and warehouses and verify the progress of shelter constructions and the adequacy of security arrangements at UNHCR offices in Yemen. The audit methodology included: (a) interviews of key personnel through video conferences and phone calls; (b) review of scanned copies of relevant documentation requested from the Representation's offices in Yemen; (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; and (d) testing of controls through stratified random sampling.

III. OVERALL CONCLUSION

11. The Representation needed to strengthen controls over emergency preparedness arrangements, distribution of emergency NFIs, the management of projects implemented through partners, and the management of cash assistance programmes. The Representation also needed to build capacity of partners undertaking shelter activities and ensure adequate supervision and oversight arrangements over procurement, vendor management and financial management. [REDACTED]

IV. AUDIT RESULTS

A. Emergency preparedness and response

The Representation needed to further strengthen its emergency preparedness arrangements

12. According to the UNHCR Emergency Handbook, to ensure adequate preparedness for an emergency, the Representation is required to establish contingency and business continuity plans for its critical programme activities. The Representation is also required to establish and participate in inter-agency emergency coordination mechanisms, develop an emergency response strategy and implementation plans, and document standard operating procedures (SOPs) for key protection priorities.

13. In preparation for an eventual emergency situation, the Representation had updated its business continuity plan based on the 2014 Yemen programme criticality assessment and developed a strategic refugee response plan in February 2015. The inter-agency mechanisms established for the IDP response subsequently resulted in the development of the Yemen Humanitarian Response Plan, a revised Yemen programme criticality assessment, and a draft inter-agency contingency plan which was being finalized at the time of the audit. The Representation actively participated in the inter-agency coordination activities and led the Protection cluster and the NFI, Shelter and Camp Coordination and Camp Management cluster. It also developed internal emergency response plans and undertook a planning exercise through participatory assessments both in Sana'a and Aden in September 2015 to reallocate its resources and to align its operations plan, objectives and targets with the emergency response plans. In July 2016, the Representation prepared the required checklists for Minimum Preparedness Actions and Advanced Preparedness Actions and completed or initiated a number of the required actions.

14. However, OIOS review of the Representation's arrangements for emergency preparedness indicated that the Representation did not: (i) develop a contingency plan for its refugee programme, especially those activities rated as "One", i.e. the highest, in the programme criticality assessment undertaken after the level-3 emergency was declared; (ii) have data on an estimated 150,000 Somali refugees; (iii) have reliable data for other refugees as the last comprehensive verification exercise was conducted in 2010; and (iv) update its existing SOPs prepared between 2008 and 2013 regarding new arrivals, case management, resettlement, detention monitoring, and referral pathways for IDP protection services.

15. The above weaknesses resulted as the Representation faced challenges due to the difficult security environment, a shrinking protection space, and visa restrictions for staff to enter Sana'a. It also had to deal with two governments both claiming legitimacy and controlling different geographical territories. The Representation had to suspend its registration activities on 18 August 2016 and its refugee status determination activities on 21 September 2016, and had not been able to undertake detention monitoring since April 2016. As a result of the cited weaknesses, there was a risk that the Representation's protection priorities would not be implemented through adequate procedures and that the response to the emergency would not be delivered in a well-coordinated and cost-effective manner.

(1) The UNHCR Representation in Yemen should: (a) develop contingency plans for all critical programme activities; (b) undertake a verification of the refugee population in Yemen; and (c) update the standard operating procedures for core protection activities.

UNHCR accepted recommendation 1 and stated that the Representation had drafted a contingency plan for the new displacement and initiated planning for the verification of the refugee population and updating of the outdated SOPs. Recommendation 1 remains open pending receipt of the approved contingency plan for all critical refugee programme activities, documentation evidencing completion of the verification of the refugee population, and the finalized SOPs.

There was a need to strengthen controls over distribution of emergency NFIs

16. UNHCR procedures for warehouse management and distribution of commodities require the Representation to: develop a NFI strategy based on an assessment of the needs of the persons of concern; establish cost effective and safe logistics and warehouse operations; establish criteria for the selection of beneficiaries; prepare detailed NFI distribution plans; conduct regular on-site distribution monitoring; undertake post distribution monitoring; record all inventory movements; and prepare reconciliation reports after completed distributions.

17. During the audit period, the Representation, based on the needs assessed by the inter-agency cluster, distributed NFI kits valued at \$17.6 million. It prepared a NFI strategy, established criteria for the selection of vulnerable beneficiaries, developed distribution plans, and updated the details of actual distributions of NFIs into an excel tracking sheet. It regularly updated warehouse transactions in the MSRP system, and physically verified and reconciled the NFI stock records on a quarterly basis. It also ensured that partners undertook an identification of beneficiaries and an assessment of beneficiary needs.

18. However, a review of a sample of NFI distributions undertaken by six of the Representation's partners to 3,628 households indicated that five of the six partners did not apply the required vulnerability criteria for the selection of beneficiaries and two of the six partners did not maintain signed distribution lists to confirm the receipt of NFIs by the beneficiaries. The Representation also did not ascertain the reliability of the distribution reports submitted by the partners through reconciliation with the waybills and material stock requests. For example, OIOS identified 14,114 kitchen sets, 25,009 mattresses and 112,392 blankets valued at about \$1.3 million as unreconciled in 2015. In addition, the Representation did not apply innovative measures identified in UNHCR guidance and best practices on remote

monitoring when it was not possible for the Representation's staff to be physically present at distribution sites due to the security situation.

19. In 2015, the Representation engaged an international partner to undertake post distribution monitoring of the NFIs distributed. However, this process was not effective in meeting the intended objectives. For example: the post distribution monitoring covered NFIs distributed by five partners in only 8 of the 19 Governorates in Yemen; the beneficiary samples were not consistent and varied from 3 to 75 per cent; and, in the South of Yemen, information was collected only through key informants because beneficiary lists were not available. In addition, whilst the Representation had taken political violence insurance cover which protected it from losses due to air-strikes and looting, it did not raise an insurance claim to recover funds lost in 2015 for NFIs valued at approximately \$179,000.

20. The cited control deficiencies occurred because the Representation had not put in place appropriate management supervision and control arrangements over distribution of NFIs. As a result, the Representation could not ensure that the assistance delivered was cost-effective. It was also exposed to the risk that NFIs distributed during the emergency did not reach all intended beneficiaries or were not targeted at the most vulnerable beneficiaries. Lack of action on the insurance claim for lost NFIs meant that it was at risk of not recovering \$179,000 that it was potentially entitled to.

(2) The UNHCR Representation in Yemen should put in place an action plan for strengthening controls over non-food item distributions, including through remote monitoring mechanisms.

UNHCR accepted recommendation 2 and stated that as part of the 2017 planning, the Representation had prioritized monitoring of NFI distributions. Efforts for developing remote monitoring tools were also underway. Recommendation 2 remains open pending receipt of the action plan for strengthening controls over NFI distributions, including through remote monitoring mechanisms developed, and a sample of the latest reports on monitoring of NFIs distributed.

(3) The UNHCR Representation in Yemen should make an insurance claim to recover the value of non-food items lost in 2015-2016 estimated at \$179,000.

UNHCR accepted recommendation 3 and stated that the Representation would prepare the necessary documentation to initiate the insurance claim. Recommendation 3 remains open pending receipt of the insurance claim documentation and confirmation of its recovery.

B. Partnership management

The Representation needed to address the remaining weaknesses in the management of projects implemented through partners

21. The UNHCR Enhanced Framework for Implementing with Partners requires the Representation to: select and retain the best-fit partners for its projects following an objective and transparent selection process; conclude Project Partnership Agreements with partners in a timely manner; and establish and deliver a risk-based plan for performance and financial monitoring to be conducted by a multi-functional team to verify project activities.

22. The Representation had established an Implementing Partnership Management Committee. For 2015 projects, this Committee undertook a transparent selection process which included a call for expression of interest and evaluation of the concept notes received from interested partners. The Representation signed 32 Project Partnership Agreements for \$21.4 million. However, it did not assess

the procurement capacity of partners to ascertain their comparative advantage, before designating procurement to them, as required. The Representation undertook financial verifications of partners in 2015 and had a note for file justifying not undertaking any performance verifications due to restrictions on mobility as a result of the security situation. However it did not develop any alternate mechanisms to remotely verify project performance.

23. For 2016 project implementation, the Representation retained all partners selected and used in 2015 before the onset of the emergency and added two more partners following a competitive and transparent selection process. It signed 34 Project Partnership Agreements for \$29.7 million. In addition, to address control deficiencies encountered in the partnership management process in 2015, the Representation: initiated the practice of assessing the procurement capacity of partners and entrusted them with procurement based on their comparative advantage; constituted a multi-functional project monitoring team; prepared and agreed with the partners a monitoring plan; developed an impact monitoring plan and nominated an impact monitoring focal point; and undertook 19 performance monitoring visits to various partners in accordance with the monitoring plan.

24. However, OIOS review of the Representation's project monitoring activities indicated that the following areas needed strengthening:

- The Representation paid \$135,719 in 2015 and \$74,740 in 2016 as incentive payments and operational costs to a government organization undertaking registration of refugees through a letter of understanding instead of signing a Project Partnership Agreement. Although the registration activities were temporarily suspended during 2015, such payments were made for the entire period. The Representation stated that the incentive payments were part of the capacity building initiative and a motivating factor for the government staff for improved cooperation with UNHCR. However, accountability for the use of funds was not established for the period when there were no registration activities which lasted for seven months.
- One of the partners spent \$142,350 in 2015 and \$53,702 in 2016 (until June) on referral health care. However, the amounts reimbursed to different hospitals for a specific medical condition ranged from \$6 to \$702, signifying the wide spread of payments made to health care providers for similar medical treatment. The Representation's monitoring activities had not dedicated sufficient attention to the cost of health care activities and related controls implemented by partners.

25. The exceptions highlighted above resulted as the Representation was occupied with the emergency response and had difficulties in deploying staff for project monitoring and, therefore, could not sufficiently prioritize the establishment of monitoring controls over partner projects. The Representation was therefore at risk of not obtaining value for money from its project partnerships.

(4) The Representation in Yemen should establish appropriate controls to ensure that Project Partnership Agreements are entered into with government entities and the referral health care costs incurred by partners is adequately monitored.

UNHCR accepted recommendation 4 and stated that the Representation had engaged in a partnership with a number of de-facto government entities. Every case of referral health care was now subject to UNHCR scrutiny before approval. Recommendation 4 remains open pending receipt of the signed Project Partnership Agreements with government entities, or evidence of alternative mechanisms implemented to ensure that accountability for the use of funds provided to government entities can be properly established in line with UNHCR rules and procedures, and a sample of recent reports on monitoring of referral health care costs incurred by partners.

C. Basic needs and essential services

The Representation needed to strengthen controls over its management of cash assistance programmes

26. In line with UNHCR procedures for cash-based interventions, the Representation is required to prepare SOPs promulgating that: limited resources are targeted at the most vulnerable beneficiaries who are accurately identified and receive assistance as intended; a reconciliation of the cash payments made is conducted on a monthly basis; and post-distribution assessments of the impact of cash assistance programmes are undertaken.

27. Between January 2015 and June 2016, the Representation through four partners disbursed a total of \$4.5 million as cash assistance to support 33,970 most vulnerable persons with specific needs as well as those in need of shelter assistance. It had established, in 2013, guidelines on unconditional cash assistance as a protection intervention, and developed local procedures for its partners defining the beneficiary selection criteria and implementation modalities. However, it did not consolidate these procedures to reflect the changes in the operating environment since 2013. Also, the existing procedures did not consistently include provisions relating to beneficiary assessment, coordination and post distribution monitoring.

28. A review of five cash disbursements amounting to \$527,268 indicated that the Representation only reviewed and approved cash assistance for extremely vulnerable cases. It delegated the selection of the remaining beneficiaries to its partners, without any requirement for review and pre-approval, exposing the Representation to the risk of incorrect beneficiary targeting. The Representation also did not ensure that the partners: maintained signed distribution lists to confirm the receipt of cash by beneficiaries; undertook reconciliations of cash transferred to a financial institution, which disbursed 96 per cent of the cash assistance, with the actual disbursements made and the beneficiary lists; and recovered any unused funds remaining with the financial institution. Additionally, the Representation did not conduct post-distribution monitoring activities to assess the impact of its cash assistance programmes.

29. The above shortcomings occurred because the Representation had not put in place appropriate management supervision and monitoring arrangements over its cash assistance programmes. As a result, the Representation was at risk of not being able to adequately respond to the beneficiary needs and that its cash interventions would not reach the intended beneficiaries.

(5) The UNHCR Representation in Yemen should consolidate its standard operating procedures for cash assistance, pre-approve all beneficiary selection lists, review distribution lists signed by the beneficiaries, reconcile all cash assistance payments with the beneficiary lists, and regularly undertake post-distribution assessments of the impact of cash assistance programmes.

UNHCR accepted recommendation 5 and stated that the Representation had initiated work on development of a consolidated cash assistance SOP and the Protection Unit would in future systematically review and approve beneficiary lists for cash assistance. The multifunctional team would also be prioritizing cash assistance in its monitoring activities. Recommendation 5 remains open pending receipt of the consolidated cash assistance SOP, and samples of recent signed beneficiary lists, cash assistance reconciliation reports, and post-distribution monitoring reports.

The Representation needed to build capacity of partners undertaking shelter activities

30. The UNHCR Handbook for Emergencies requires the Representation to: develop a shelter strategy and an action plan for its implementation; ensure that staff and partners involved in shelter related activities have adequate knowledge and skills to discharge their duties; ensure that payments for

rehabilitated shelters are made after verification by the site engineer; and obtain acknowledgement of receipt of shelter kits from beneficiaries.

31. The Representation spent \$2.8 million in 2015 and \$1.5 million in the six months to June 2016 on its shelter programme. It developed a Shelter Strategy and a Shelter Response Plan based on the needs identified at the cluster level, aligned with the UNHCR Global Strategy for Shelter and Settlements 2014-2018. It harmonized its impact indicators with those mentioned in the global shelter strategy. It developed the composition of the shelter kit and specified the vulnerability criteria for the selection of beneficiaries. It also prepared SOPs in March 2016 for the shelter rehabilitation projects which outlined the planning, bidding, construction monitoring and project close-out procedures.

32. However, OIOS review of shelter activities undertaken by three partners valued at \$1.6 million and documentation relating to 5 of the 50 collective shelters rehabilitated in 2015-2016 indicated that the Representation did not exercise adequate scrutiny to ensure that: (i) the partner who rehabilitated household shelters and distributed shelter kits applied vulnerability criteria for selecting 531 shelters out of the 1,000 shelters assessed, undertook a technical assessment of the extent of repair work required, released payments to beneficiaries only after verification of work done by the site engineer, obtained beneficiary signatures as acknowledgement of payments made, and obtained signatures/thumb impressions from all the beneficiaries receiving the shelter kits; and (ii) the other two partners who rehabilitated collective shelters followed transparent and competitive procurement procedures for construction contracts.

33. The reasons for the above-mentioned shortcomings were attributed to: the lack of risk-based reviews by the Representation of the adequacy of the internal control systems at partners executing shelter projects; and insufficient skills in contract management among the partners, which the Representation had not addressed through adequate training and other capacity building measures. As a result, the Representation was not fully ensuring that it was obtaining best value for funds spent on shelter projects to meet the needs of its persons of concern.

(6) The UNHCR Representation in Yemen should develop and implement an action plan for: (a) regular assessment of the adequacy of the internal control systems put in place by partners implementing shelter activities; and (b) training and other capacity building of partners undertaking shelter activities.

UNHCR accepted recommendation 6 and stated that the Representation would undertake internal control review assessments and plan a capacity building activity for all partners involved in shelter activities. Recommendation 6 remains open pending receipt of a sample of recent reports on monitoring of the internal control systems put in place by partners involved in shelter activities and details of the training and capacity building activities undertaken.

D. Procurement and vendor management

The Representation needed to strengthen management supervision and oversight arrangements over procurement and vendor management

34. UNHCR procurement rules and procedures require the Representation to: (a) prepare a needs-based annual procurement plan; (b) establish a Vendor Review Committee to oversee the vendor management process; (c) initiate timely procurement activities in accordance with the procurement plan to facilitate transparent and competitive procurement; and (d) ensure adequate oversight over the integrity of the procurement process, which includes establishing a Local Committee on Contracts (LCC) to review all contracts above \$20,000.

35. Between January 2015 and June 2016, the Representation issued 306 purchase orders amounting to \$22.5 million. It constituted a Vendor Review Committee in March 2016, which held three meetings between April and June 2016. It also established a LCC in January 2015. The LCC convened 14 meetings since then and deliberated on 42 cases. The Representation submitted 15 cases involving \$17.8 million to Headquarters Committee on Contracts, made 18 requests for waivers from competitive bidding and six ex-post facto notifications of expenditure amounting to \$3.2 million.

36. OIOS review of the vendor management and procurement activities, including a review of 40 purchase orders totalling \$12.1 million, identified that the Representation:

- (i) Registered vendors only upon their selection for a procurement case, instead of conducting a formal evaluation of expression of interest for inclusion in the vendor database. The vendor database contained 1,208 registered vendors, which included 55 duplicate records;
- (ii) Did not invite the minimum number of bidders to ensure proper competition in three procurement cases involving \$284,295. In 11 cases involving \$5.5 million, the Representation obtained waivers or ex-post facto notifications from the LCC although such instances could have been avoided through better planning to facilitate competitive procurement. Also, the LCC minutes did not have a record of deliberations indicating whether the Committee had examined and agreed to the justifications provided for the waivers or ex-post facto notifications; and
- (iii) Did not obtain proper authorization from the relevant committee on contracts in nine cases involving procurement worth \$1.1 million. For instance, there were five cases above the threshold of the LCC amounting to \$988,623, which were not submitted to the Headquarters Committee on Contracts as required. In four cases amounting to 121,192, the Representation did not seek the approval of the LCC although they were all valued at higher than \$20,000.

37. The above weaknesses were due to inadequate management supervision and oversight arrangements over procurement and vendor management. The LCC members were also not sufficiently aware of their roles and responsibilities as they had not been trained in UNHCR procurement rules and procedures. The weaknesses exposed the Representation to the risk of financial losses, inefficient operations, and not receiving value for money spent on procurement of goods and services.

38.

(7) The UNHCR Representation in Yemen should strengthen management supervision arrangements over procurement and vendor management to ensure that: (a) vendor performance is assessed and the vendor database is reviewed regularly; (b) appropriate procurement procedures are in place to avoid excessive use of ex-post facto notifications and waivers of competitive bidding; and (c) technical capacity of members of the Local Committee on Contracts is enhanced.

UNHCR accepted recommendation 7 and stated that the Representation would initiate a review of the vendor database, undertake vendor performance reviews, and plan a capacity building activity for all LCC members and alternates. With adequate procurement planning it would ensure avoidance of ex-post facto approvals and waivers. Recommendation 7 remains open pending receipt of documentation supporting the actions taken to: assess vendor performance; clean up the vendor database; avoid excessive use of ex-post facto notifications and waivers; and build technical capacity of LCC members.

E. Financial tracking and reporting

The Representation needed to strengthen supervisory arrangements over financial management

39. The Representation is required to: (i) design and implement effective controls over delegation of authority to mitigate the risk of incompatible functions; (ii) establish and monitor the implementation of adequate controls over the management of cash and bank accounts; (iii) control disbursements of administrative expenditures; (iv) monitor and report on open items (accounts receivable); and (v) ensure timely and accurate submission of monthly financial reports to headquarters.

40. The Representation incurred total administrative expenditure of \$8.1 million from 1 January 2015 to 30 June 2016. OIOS reviewed the general financial controls and tested a sample of 60 vouchers totalling \$4.1 million representing 50 per cent of the administrative expenditure. The review indicated that the Representation: appropriately prepared and updated its delegation of authority plan with no staff performing incompatible duties; systematically submitted monthly and year-end reports to UNHCR headquarters; regularly reconciled its three bank accounts in 2015 and 2016; and appointed petty cash custodians together with their back-ups for the four petty cash accounts. However, the Representation:

- (i) Did not ensure that the required supporting documents were attached to all payment vouchers. For instance, in 11 cases amounting to \$536,269, goods received notes or work completion certificates were not attached prior to approving payment;
- (ii) Had not followed up on open items to ensure that they were liquidated in a timely manner. Eight items amounting to \$75,234 were older than six months while three items amounting to \$47,622 related to 2015; and
- (iii) Settled seven invoices between August 2014 and June 2015 related to provision of transport services at revised rates without obtaining the necessary approvals, thus resulting in an overpayment of \$14,599 to the vendor.

41. These shortcomings happened because the Representation had not established adequate supervisory review mechanisms to enforce full compliance with UNHCR rules and procedures on financial management. As a result, the Representation was exposed to the risk of fraudulent transactions, loss of financial resources and incorrect financial reporting.

(8) The UNHCR Representation in Yemen should strengthen supervisory arrangements for achieving full compliance with UNHCR financial rules and procedures to ensure that supporting documentation is complete prior to approving payments and long-standing receivables are liquidated.

UNHCR accepted recommendation 8 and stated that the Representation initiated action to ensure that adequate supporting documents were attached to payments and to prioritize follow-up on open items. Recommendation 8 remains open pending receipt of documentation on the actions taken to ensure that supporting documentation is attached before payments are approved and long-standing receivables are liquidated.

(9) The UNHCR Representation in Yemen should take action to recover an overpayment of \$14,599 made to a vendor.

UNHCR accepted recommendation 9 and stated that the Representation had initiated the recovery process and the full amount would be recovered by the end of June 2017. Recommendation 9 remains open pending receipt of documentation confirming the full recovery of the overpayment of \$14,599.

F. Security and staff safety

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

V. ACKNOWLEDGEMENT

45. 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
Director, Internal Audit Division
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

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	The UNHCR Representation in Yemen should: (a) develop contingency plans for all critical programme activities; (b) undertake a verification of the refugee population in Yemen; and (c) update the standard operating procedures for core protection activities.	Important	O	Submission to OIOS of the approved contingency plan for all critical refugee programme activities, documentation evidencing completion of the verification of the refugee population and finalized SOPs for core protection activities.	31 December 2017
2	The UNHCR Representation in Yemen should put in place an action plan for strengthening controls over non-food item distributions, including through remote monitoring mechanisms.	Important	O	Submission to OIOS of the action plan for strengthening controls over NFI distributions, including through remote monitoring mechanisms developed, and a sample of the latest reports on monitoring of NFIs distributed.	30 September 2017
3	The UNHCR Representation in Yemen should make an insurance claim to recover the value of non-food items lost in 2015-2016 estimated at \$179,000.	Important	O	Submission to OIOS of the insurance claim documentation and confirmation of its recovery.	30 June 2017
4	The Representation in Yemen should establish appropriate controls to ensure that Project Partnership Agreements are entered into with government entities and the referral health care costs incurred by partners is adequately monitored.	Important	O	Submission to OIOS of the signed Project Partnership Agreements with government entities, or evidence of implementation of alternative mechanisms to ensure that accountability for the use of funds provided to government entities can be properly established in line with UNHCR rules and procedures, and a sample of recent reports on monitoring of referral health care costs incurred by partners.	30 September 2017
5	The UNHCR Representation in Yemen should consolidate its standard operating procedures for	Important	O	Submission to OIOS of the consolidated cash assistance SOP, and samples of recent signed	31 December 2017

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

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
	cash assistance, pre-approve all beneficiary selection lists, review distribution lists signed by the beneficiaries, reconcile all cash assistance payments with the beneficiary lists, and regularly undertake post-distribution assessments of the impact of cash assistance programmes.			beneficiary lists, cash assistance reconciliation reports, and post-distribution monitoring reports.	
6	The UNHCR Representation in Yemen should develop and implement an action plan for: (a) regular assessment of the adequacy of the internal control systems put in place by partners implementing shelter activities; and (b) training and other capacity building of partners undertaking shelter activities.	Important	O	Submission to OIOS of a sample of recent reports on monitoring of the internal control systems put in place by partners involved in shelter activities and details of the training and capacity building activities undertaken.	31 July 2017
7	The UNHCR Representation in Yemen should strengthen management supervision arrangements over procurement and vendor management to ensure that: (a) vendor performance is assessed and the vendor database is reviewed regularly; (b) appropriate procurement procedures are in place to avoid excessive use of ex-post facto notifications and waivers of competitive bidding; and (c) technical capacity of members of the Local Committee on Contracts is enhanced.	Important	O	Submission to OIOS of documentation supporting the actions taken to: assess vendor performance; clean up the vendor database; avoid excessive use of ex-post facto notifications and waivers; and build technical capacity of LCC members.	30 September 2017
8	The UNHCR Representation in Yemen should strengthen supervisory arrangements for achieving full compliance with UNHCR financial rules and procedures to ensure that supporting documentation is complete prior to approving payments and long-standing receivables are liquidated.	Important	O	Submission to OIOS of documentation on the actions taken to ensure that supporting documentation is attached to payment vouchers and long-standing receivables are liquidated.	30 September 2017
9	The UNHCR Representation in Yemen should take action to recover an overpayment of \$14,599 made to a vendor.	Important	O	Submission to OIOS of documentation confirming the full recovery of the overpayment of \$14,599.	30 June 2017

STATUS OF AUDIT RECOMMENDATIONS

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

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴

APPENDIX I

Management Response

Management Response

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

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNHCR Representation in Yemen should: (a) develop contingency plans for all critical programme activities; (b) undertake a verification of the refugee population in Yemen; and (c) update the standard operating procedures for core protection activities.	Important	Yes	Protection Officer/ Programme Officer	31/12/2017 30/6/2017 31/07/2017	In 2016, the Representation started procuring and mobilizing the necessary equipment, logistics, biometrical system and resources to initiate the verification of the refugee population, which is expected to be completed by the end of 2017, subject to various challenges. The process of updating the remaining outdated standard operating procedures has already started and will be completed by June 2017. A contingency plan for the new displacement has been drafted; Standard operating procedures for all critical core protection program activities will also be completed by end of July 2017.
2	The UNHCR Representation in Yemen should put in place an action plan for strengthening controls over non-food item distributions, including through remote monitoring mechanisms.	Important	Yes	Field Officers	30/09/2017	As part of the 2017 planning, monitoring of NFI distribution has been prioritized. Vulnerability criteria will be reviewed and finalized and strictly applied by all partners. UNHCR field offices will monitor the application of the vulnerability criteria and review distribution reports ensuring reconciliation with stock released from warehouses.

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.

Management Response

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

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						<p>Efforts for developing remote monitoring tools are underway to ensure that monitoring can be reasonably undertaken. The operation will continue to improve the implementation of Activity Info to support the monitoring.</p> <p>Effective monitoring mechanisms will be established and operational by September 2017.</p>
3	The UNHCR Representation in Yemen should make an insurance claim to recover the value of non-food items lost in 2015-2016 estimated at \$179,000.	Important	Yes	Supply Officer	30/06/2017	The Representation will prepare the necessary documentation to initiate the insurance claim.
4	The Representation in Yemen should establish appropriate controls to ensure that Project Partnership Agreements are entered into with government entities and the referral health care costs incurred by partners is adequately monitored.	Important	Yes	Programme Officer	31/09/2017	<p>The Representation has been engaged in a partnership with a number of de-facto government entities.</p> <p>On monitoring health care costs, every case is now subject to UNHCR scrutiny before approval.</p>
5	The UNHCR Representation in Yemen should consolidate its standard operating procedures for cash assistance, pre-approve all beneficiary selection lists, review distribution lists signed by the beneficiaries, reconcile all cash assistance payments with the beneficiary lists, and regularly undertake post-distribution assessments of the impact of cash	Important	Yes	Field Officer/ Protection Officer/ Programme Officer	31/12/2017	The Representation has already initiated work on developing a consolidated Cash Assistance Standard operating procedures (SOP) through a number of consultations with the Cash Cap Expert, who has recently arrived in the country. The SOP will be shared once completed. In addition, UNHCR will be participating in the Cash Learning Procedure initiative, which is

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

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	assistance programmes.				30/06/2017	<p>currently in the process of being developed and is expected to be operational by the end of 2017.</p> <p>Additionally, following the recommendation, the Protection Unit systematically participates in the review and approval of beneficiary lists for Cash assistance. As a reporting requirement, a monthly cash assistance reconciliation report together with supporting documents will be included for all partners involved in cash-based interventions activities to ensure adequate reconciliation.</p> <p>Finally, the multifunctional team as part of its monitoring activities will prioritize cash-based interventions assistance. The Representation aims to implement this monitoring by June 2017.</p>
6	The UNHCR Representation in Yemen should develop and implement an action plan for: (a) regular assessment of the adequacy of the internal control systems put in place by partners implementing shelter activities; and (b) training and other capacity building of partners undertaking shelter activities.	Important	Yes	Project Control Officer/ Field Officers/ Shelter/CCCM Cluster Coordinator	31/07/2017	<p>The Representation will ensure Internal control review assessments for all partners involved in shelter activities and other large scale procurements are conducted. The Representation will support the partners and monitor the implementation of the recommendations.</p> <p>Additionally, the Representation will also plan a capacity building activity for all partners involved in Shelter activities to ensure compliance with procurement principles and standards. The</p>

Management Response

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

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						Representation hopes to implement this recommendation by July 2017.
7	The UNHCR Representation in Yemen should strengthen management supervision arrangements over procurement and vendor management to ensure that: (a) vendor performance is assessed and the vendor database is reviewed regularly; (b) appropriate procurement procedures are in place to avoid excessive use of ex-post facto notifications and waivers of competitive bidding; and (c) technical capacity of members of the Local Committee on Contracts is enhanced.	Important	Yes	Supply Officer	30/09/2017	<p>The Representation will initiate a review of the vendor database to ensure elimination of all duplicate vendors and ensure update of vendor files and review of vendor performance.</p> <p>Adequate procurement planning with clear timelines will also be undertaken to ensure the avoidance of ex-post facto approvals and waivers.</p> <p>The Representation will also plan a capacity building activity for all LCC members and alternates to ensure their capacity building. The Representation hopes to implement this recommendation by September 2017.</p>
8	The UNHCR Representation in Yemen should strengthen supervisory arrangements for achieving full compliance with UNHCR financial rules and procedures to ensure that supporting documentation is complete prior to approving payments and that long-standing receivables are liquidated.	Important	Yes	Admin/Finance Officer	30/09/2017 30/06/2017	<p>The Representation has already initiated action in ensuring that adequate supporting documents are attached to all payments including copies of certified Goods Received Notes (GRN) and certificate of works completed and this will be sustained</p> <p>Priority has been given to following up on all open items.</p>
9	The UNHCR Representation in Yemen should take action to recover an overpayment of \$14,599 made to a	Important	Yes	Admin/Finance Officer	30/06/2017	The Representation has initiated the recovery process. The Representation aims to recover the full amount by the end of

Management Response

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

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	vendor.					June 2017.