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Programme

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Mundial  
de Alimentos

**Executive Board  
Annual Session**

**Rome, 24–26 May 2004**

# **RESOURCE, FINANCIAL AND BUDGETARY MATTERS**

**Agenda item 6**

*For consideration*

# **E**

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## **REPORT OF THE INSPECTOR-GENERAL**



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## NOTE TO THE EXECUTIVE BOARD

**This document is submitted for consideration to the Executive Board.**

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal point indicated below, preferably well in advance of the Board's meeting.

Director, Oversight Services and  
Inspector-General (OEDO):

Mr Adnan B. Khan

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Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact the Supervisor, Meeting Servicing and Distribution Unit (tel.: 066513-2328).



## EXECUTIVE SUMMARY

In accordance with Article VI (2) (b) (viii) of the WFP General Regulations, the Executive Board is provided with a biennial report of the Inspector-General on inspections and investigations for its consideration and forwarding to the United Nations Office of Internal Oversight Services, as established by Board decision 1996/EB.3/3. This is the fifth report of the Director, Oversight Services and Inspector-General which covers the period from January 2002 to December 2003.

This document:

- provides information on initiatives undertaken by the Division of Oversight Services;
- summarizes the audits, investigations and inspections undertaken during the biennium and their impact;
- reports total recoveries for the period of over US\$4.7 million;
- describes cooperation with other oversight units and host governments; and
- provides a preview of work in 2004–2005.

## DRAFT DECISION\*

The Board takes note of the report of the Director, Oversight Services and Inspector-General (WFP/EB.A/2004/6-C/1) and will forward it to the United Nations Office of Internal Oversight Services along with its comments.

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\* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.



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## INTRODUCTION

1. Considering the report of the Office of the Inspector-General for 2000–2001, the Board decided to review internal oversight mechanisms more closely at its Third Regular Session in 2003. Board members stressed the need for effective oversight to deter fraud, mismanagement and waste, and suggested that future reports include information on trends. Further, the Board encouraged early implementation of the United Nations Staff Regulations and Rules, revised pursuant to a review of the United Nations Code of Conduct. The Board also requested that the Division of Oversight Services (OEDO) ensure the policies and principles enunciated by the Inter-Agency Standing Committee (IASC) on the prevention of sexual exploitation and abuse of refugees in humanitarian crises be vigorously enforced. Members also expressed the view that WFP should continue to provide country directors with appropriate training regarding transparency and accountability.
2. This report covers 2002–2003, and is the fifth in a series of reports by the Inspector-General to the Board. OEDO, as noted in the 2000–2001 report, was formed in November 2001, and it now comprises the Office of Internal Audit (OEDA) and the Office of Inspections and Investigations (OEDI). OEDO operates independently under the authority of, the Executive Director. This report provides information on the oversight activities of OEDO.

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## DEVELOPMENTS IN OVERSIGHT SERVICES

3. As requested by the Executive Board, OEDO undertook a comprehensive review of current best practices in oversight. The result of this study, “Best Practices in Oversight Mechanisms”, was shared with the Executive Board at its Third Regular Session in 2003 (WFP/EB.3/2003/5-D/1). The Board took note of the study and:
  - recognized that WFP had an opportunity to become a leader in corporate governance in the United Nations system by adopting the best practices outlined;
  - appreciated the commitment of the Executive Director to introduce a Statement of Internal Control; and
  - welcomed the Executive Director’s proposal to discuss with the Governance Group the possibility of creating an external audit committee.
4. Strongly supporting the introduction of risk management, the Board looked forward to the development of a policy and an associated action plan for its consideration in October 2005, and to an informal consultation in 2004 to keep abreast of developments.
5. At the request by the Executive Board, and in consultation with other divisions, OEDO played an active role in WFP’s response to the IASC recommendations concerning the prevention of sexual exploitation and abuse of refugees in humanitarian crises. The Executive Director issued two circulars for implementing the core recommendations in WFP and for providing guidance on implementation. All staff have been advised that any allegation of this nature must be reported to either the Human Resources Division or OEDI, and that OEDI shall be responsible for all investigations. The Inspector-General has sent a draft complaints and investigations protocol to all country offices for their information while awaiting the final guidelines to be published by the Executive Committee on Humanitarian Affairs (ECHA) working group. OEDO continues to be



actively involved with other divisions on the development of procedures and guidance by the working group of ECHA.

6. In 2003, WFP issued an administrative directive on the use of network services and the Internet, which states that the WFP computer network must not be used to view, store or disseminate material which is incompatible with the ethical standards of the international civil service.
7. OEDO commissioned a study in 2003 to benchmark its practices in auditing, inspections and investigations. The study resulted in 44 recommendations for improvement of processes and procedures. OEDO has prepared an action plan for implementation of these recommendations.
8. In 2003, WFP started a country director training programme. OEDO actively collaborated in the design of the programme, which has a component on issues related to transparency, accountability, oversight and investigation. Efforts are underway to enrich the content of the programme.

## OFFICE OF INTERNAL AUDIT (OEDA)

### Audits

9. OEDA conducted 10 audits at Headquarters and audited operations in 24 field offices in the biennium. OEDA's work plan was shared and coordinated with the external auditors. Principal processes were reviewed; the significant and common issues were:
  - Financial Statements: A fund accounting policy, requiring the various WFP funds to have self-balancing ledgers, was not yet fully implemented in WFP; the full implementation of this policy would allow cash and bank balances attributable to each programme category to be more easily verifiable. Some expenditures were not charged to the appropriate programme category; these were investigated for appropriate corrective action. Finally, monitoring of the contributions system needed to be strengthened to ensure an accurate and complete record of the status of donations.
  - Review of 2002 Post-Delivery Loss Report: Information in the 2002 Post-Delivery Loss Report to the Executive Board was derived from two separate systems: the Commodity Movement Processing and Analysis System (COMPAS) and the Data Collection Telecoms Application (DACOTA) system developed to assist with the preparation of donor reports. There were some data inconsistencies in the two systems and management agreed that in future the Post Delivery Loss Report would be prepared solely from one system.
  - Procurement of Food and Non-Food Items: Improvements are required to the system for selecting and registering suppliers of food and non-food items, and complying with established procurement rules and procedures. Contracting arrangements for milling contracts in some countries require improvement.
  - WFP Information Network and Global System (WINGS): User access to significant processes in WINGS needs to be tightened to reduce the risk of error and fraud. A review of the present configuration of WINGS is required to implement effective preventative and detective application controls in the system. Although WINGS was successfully rolled out to field offices, a clear, written implementation strategy would have facilitated this process. Slow WINGS response time is currently being addressed for some field offices.



- **Transport and Logistics:** A number of the International Civil Aviation Organization (ICAO) recommendations on air safety made in 2000 and 2001 have been implemented; further actions need to be taken, however. The process of selecting transport companies needs to be more transparent: management needs to document the process more accurately, especially in the case of waiver actions, to enhance transparency and ensure accountability.
- **Commodity Management:** Insufficient validation controls exist in COMPAS. This increases the risk of unauthorized changes to data already in the system. OEDA also noted weaknesses in warehouse and distribution controls at the implementing partner level, for example lack of systematized physical reconciliation of stocks against records and incomplete record-keeping.
- **Cash and Financial Management:** Segregation of duties in cash and financial-management requires strengthening. Alternative controls, such as close review and monitoring of staff actions, are needed in cases where segregation of duties cannot be effectively implemented. Weaknesses in segregation of duties and in the system of checks and balances were noted in a number of country office operations.
- **Programme Management:** In the absence of a single corporate system, country offices have developed their own programme management systems. The result is that data has not been gathered or reported in a consistent manner across the Programme. In some countries, there were insufficient controls over sub-project identification and approval in the implementation phase of emergency operations (EMOPs), protracted relief and recovery operations (PPROs) and country programmes.
- **Staff Security:** Although security training has been provided to the majority of Headquarters and field staff, the process has not been systematized to ensure timely, regular training for new staff and training updates for existing staff. In some countries, the security plan has not been finalized, and in others, country directors do not have copies of the finalized security plan.
- **Personnel Management:** There are delays in staffing country offices in acute emergency situations and there is no corporate-wide payroll system for field offices.

## Management Advisory Service

10. OEDA plays a proactive role in shaping management policies and decisions by providing management advisory services on a wide range of issues to business units at Headquarters and in the field. In 2002–2003, OEDA responded to 246 management requests for advice on financial and operational policies and procedures, including the Executive Director's circulars and directives, Executive Board documents, special studies directed by senior management, agreements with donors and other parties and evaluation reports.

## Risk Management

11. OEDA conducted 11 risk management workshops in regional bureaux, large and small country offices and support offices to initiate Enterprise Risk Management (ERM) process in WFP. The feedback received from these offices was very positive.



## AUDIT ISSUES TRENDS

12. OEDA classifies audit issues into five high-level causes<sup>1</sup> in its database. For the period under review, OEDA has identified preliminary trends. One indication is that the “compliance” and “guidance” categories appear more frequently as the causes of audit issues than the other categories. This could be due to the nature of emergency operations in WFP, which places more stress on compliance with prescribed and defined rules, procedures and processes, and can hinder timely or close guidance and supervision of staff. Another indication is that the “compliance” and “guidance” categories have appeared less frequently in 2002–2003 than in 2000–2001, denoting an improvement. This decrease could be attributable to a gradual but firm strengthening of the internal control structure by management, and to the increased provision of normative guidelines on business processes.
13. OEDA further classifies audit issues and recommendations by audit thrust area<sup>2</sup> in its database. In 2000–2001, audit issues were identified most frequently in the three thrust areas of transport and logistics, computer operations, and programme/project management. In 2002–2003, the three most frequent thrust areas were programme/project management, transport and logistics, and procurement. The most frequent thrust areas broadly reflect the higher level of resource expenditures throughout WFP.

## OFFICE OF INSPECTIONS AND INVESTIGATIONS (OEDI)

### Summary of Work

14. OEDI received a wide range of reports of allegations over the biennium. Reports were submitted to the Executive Director on 13 investigations and 6 inspections. OEDI provided oversight and assistance to country offices in 18 additional investigations.
15. OEDI inspections and investigations uncovered more than US\$2.8 million worth of losses due to theft, fraud or mismanagement leading to either excessive expenditures or to non-recovery of commodity losses. Recoveries during the biennium totalled over US\$4.7 million, were:
  - US\$763,566 from investigations and inspections over the reporting period;
  - US\$393,395 from a first instalment in cash and kind received in 2002 and US\$434,695 from a second instalment received in 2003, totalling US\$828,090, for the loss of US\$1.75 million; and
  - US\$3.1 million as the final instalment from an implementing partner, for the diversion of US\$3.5 million of commodities reported in 2001.

<sup>1</sup> The five high-level causes identified by OEDA are:

Compliance – Failure to comply with prescribed WFP rules and regulations;

Guidelines – Absence of written procedures to guide staff in the performance of their functions;

Guidance – Inadequate or lack of supervision by supervisors or support functions;

Human error – Mistakes or clerical errors committed by staff entrusted to perform assigned functions; and

Resources – Lack of or inadequate resources (funds, skills, staff etc.) to carry out an activity or function.

<sup>2</sup> The audit thrust areas identified by OEDA represent a sub-division of WFP operations into its distinct components: Budgetary Control, Transport and Logistics, Cash Management, Financial Management, Food and Non-Food Procurement and Personnel Management. OEDA currently uses 24 audit thrust areas to subdivide its work.



Scheduled recoveries of more than US\$538,000 from one government and the remaining US\$924,910 from another have not yet been received.

16. OEDI provided management with 340 recommendations during the biennium; 89 arose from investigations and 251 from inspections. Recommendations covered areas including staff discipline, management practices, warehouse management, establishment of guidelines, collaboration with other United Nations entities, improvements to procedures and recovery of diverted or stolen food.

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## INVESTIGATIONS

17. Of the 77 investigations recorded during the reporting period, 33 resulted in reports by OEDI or the country office, 18 were found to be unsubstantiated and 8 were conducted to assist other agencies; 18 are still in progress. Below is a summary by type of case:
  - Financial Fraud: This included two cases of cheque fraud and one of non-effected payment, which went undetected for several months due to lapses in control procedures. One case resulted in a loss of over US\$200,000 to WFP. In this case, the regional bureau, responsible country office staff and OEDI pursued the staff member through the law enforcement agencies of several countries until he was eventually arrested. The case went to court and the ex-staff member received a sentence of ten years in prison; his personal assets were seized and they are being sold in order to repay the loss suffered by WFP. An Information Notice from the Inspector-General was sent to all staff members informing them of the outcome of the case and the resolve of WFP to pursue and prosecute the perpetrators as a new deterrent measure introduced by OEDO. The other two cases are being investigated by OEDI with the intention of pursuing criminal actions.
  - Conflict of Interest/Bribery/Involvement of WFP Staff in Other Business Activity: Fourteen cases were investigated; in eight of those cases, allegations were found to be without substance. In the other cases, conflicts involved ownership of stores, vehicles and transport companies doing business with or being used by WFP, as well as the use of WFP contacts and facilities to further personal business interests including the sale of commodities, antiques and gems. In two cases, the staff members involved resigned. In the remaining cases, administrative or disciplinary actions, including dismissal, were taken against the employees involved. In one case, the investigation is ongoing.
  - Entitlement Fraud: OEDI investigated seven cases in which staff had incorrectly or falsely submitted claims and accepted reimbursement from WFP. WFP was able to recover more than US\$17,000 from two staff members. In other cases, the staff had resigned before money had been recovered. OEDI will continue tracking the individuals and, where possible, take other steps to recover the outstanding sums.
  - Mismanagement: Seven cases involving mismanagement were investigated, three of which concerned senior staff. The most significant case centred on a logistics hub where losses and excessive expenditures of over US\$1.9 million were identified. In this case, the head of the sub-office simply abandoned his post and disappeared. Administrative or disciplinary actions, including dismissal, were taken against six other staff involved. The country office, in consultation with OEDI, has been able to recover over US\$535,000. In a second case, over US\$20 million was deposited into financial institutions that had not been selected according to standard procedures, and





funds were at risk. Through combined Financial Services, OEDA and OEDI actions, all funds were recovered.

- Cash Robberies/Thefts: Four cases were reported during the biennium, resulting in losses to WFP of over US\$326,000. Stolen amounts could not be recovered. Recommendations to improve security have been implemented and sanctions against staff, including dismissal, have resulted. An Information Notice from the Inspector-General has been sent to all country offices regarding security measures to be implemented when large amounts of cash are held.
- Commodity Losses: Losses of commodities worth over US\$220,000 due to the diversion of food by implementing partners, robbery from WFP warehouses, and the armed theft of vehicles transporting WFP food were reported (the vehicles were later recovered). This figure does not include losses due to the looting of warehouses or transport losses. The country offices concerned have been advised to recover these losses and OEDI is tracking the recoveries. In one case, the sale of WFP commodities in local markets was tracked back to a 1995 WFP purchase contract that was not received by WFP; the commodities were recently given to a local NGO who bartered them for other commodities. OEDI required all vendors to remove the commodities from sale.
- Harassment and Abuse of Power: OEDI received 14 complaints of harassment and abuse of power. Country offices investigated two of these complaints and Human Resources investigated three. Eight cases were either withdrawn by the complainant or found to be unsubstantiated. In three cases, personnel received administrative or disciplinary sanctions. As part of OEDO's deterrence and prevention efforts, the Inspector-General, in conjunction with Human Resources, has sent a notice to all staff regarding WFP policies concerning harassment and abuse of power, including Human Resources contact numbers and the OEDI hotline and policy on protection of the confidentiality of sources.
- Sexual Exploitation and Abuse: In December 2003, OEDI received one complaint of sexual exploitation. An investigation was launched in the country where the complainant and alleged perpetrator reside; the investigation is ongoing.
- Internet and E-mail Abuse: OEDI handled three cases of internet and e-mail abuse over the biennium. In one case, a staff member who circulated an offensive and sexually explicit e-mail to WFP staff was disciplined. In the other cases, two staff members used the WFP e-mail network to further their personal business interests, contrary to WFP's policy on network services. These staff members were also subject to disciplinary action.

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## INVESTIGATION TRENDS

18. It is not easy to make comparisons or trend analyses, since work carried out between the two biennia is not homogeneous. During this biennium, WFP has seen a decrease in the number of cases involving large-scale commodity diversions by governments or implementing partners. Direct losses because of mismanagement have increased substantially, although the main loss in this area concerns one sub-office and may not indicate a trend. OEDI has made several recommendations to prevent a similar reoccurrence. Losses due to financial fraud have also increased; this can be attributed to lapses in controls. In addition to personnel sanctions, recommendations have been made to tighten controls. Although the number of cash robberies has remained constant, the amount of loss has grown substantially.



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## INSPECTIONS

19. During the biennium, six scheduled inspections were conducted. It was noted that more work must be done by regional bureaux and country office staff to improve their oversight of country offices and sub-offices. Issues arising from inspections over the biennium included:
- Logistics: During the initial stages of an emergency, problems were observed in the control of invoicing and local transport contracting; there were many instances of transit losses not recovered from the transporters.
  - Finance: Expenditures were not assigned against correct project codes. In one case there was non-reporting of accounts containing more than US\$550,000.
  - Human Resource Management: Several countries reported difficulties in hiring qualified national staff; the gender ratio was not achieved and field monitors were predominately male. In addition, national staff performance was not often assessed and there was a lack of standardized personnel contracts.
  - Administration: The lack of a uniform policy for private use of WFP vehicles or payment for the private use of WFP telephones or other equipment was noted.

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## REVIEWS

20. OEDO reviewed emergency preparedness in the Middle East. This new initiative was designed to provide OEDO with advice and suggestions on the adequacy of the proposed management structure, operational systems and procedures, prior to the commencement of full operations, to ensure that the system was run effectively and efficiently. It was conducted by staff from both OEDA and OEDI, to facilitate the simultaneous inspections and rapid reporting on six countries and two headquarters. They issued and implemented 221 recommendations. Feedback from the Operations Department, regional coordinator, country directors and senior staff was positive and OEDO plans to continue these activities when possible.

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## INTER-AGENCY, DONOR AND GOVERNMENT COLLABORATION

21. OEDO was involved in the following inter-agency collaboration activities during the reporting period.
- When requested, OEDI assisted other agencies with investigations, gathering evidence from WFP staff who witnessed the actions of other agencies' staff members. The Office of the United Nations High Commissioner for Refugees (UNHCR) was assisted on four cases, the United Nations Office of Internal Oversight Services (OIOS) on three cases and the World Bank on one. These cases involved allegations of harassment, sexual exploitation and abuse of refugees, as well as procurement irregularities and bribery.
  - OEDO supported the IASC working group on sexual exploitation and abuse, and is participating in the reviews of guidelines and procedures being prepared by the Executive Committee on Humanitarian Affairs (ECHA) working group. OEDI is also participating as a member of the editorial board with UNICEF and UNHCR in the UNHCR sponsored initiative to develop guidelines concerning sexual exploitation and abuse for NGOs.



- WFP benefited from the secondment of an inspection and investigation officer to Interpol from October through December 2003, further increasing cooperation between the two agencies.
- OEDO staff attended the 34<sup>th</sup> meeting of the Representatives of Internal Audit Services (RIAS) of the United Nations and Multilateral Financial Institutions, held in June 2003 in Panama City. This yearly meeting is an opportunity for exchange of audit and oversight information; WFP has assumed a significant role as a member in this event.
- OEDO staff participated in the OIOS Organizational Integrity Initiative, including an OIOS-sponsored executive training programme in June 2003. They also participated in conference call working group discussions, held at United Nations Headquarters in New York, to discuss progress in the United Nations Secretariat's proposed organizational integrity survey.
- OEDI staff attended the Fourth Conference of International Investigators, held in April 2003 and attended by many United Nations organisations and agencies, including OIOS, UNHCR, UNDP and the World Bank, in addition to Interpol and European Union oversight institutions. During this conference, uniform guidelines for investigations were endorsed, and have since been followed by OEDI when conducting investigations.

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## PREVIEW OF INITIATIVES IN 2004–2005

22. OEDO's work in 2004–2005 will be guided by the dual objectives of providing enhanced quantity and quality of oversight services in terms of value-added. Work will continue to be undertaken in coordination with WFP's external auditors.
23. OEDO will implement the Executive Director's policy of auditing all major and high-risk country and regional offices every year and all other offices once every three years. OEDA's work plan for 2004 has been prepared accordingly. This will result in an over 80 percent increase in the number of country and regional offices audited in a biennium.
24. In line with the understanding reached with the Executive Board, the Executive Director plans to strengthen the internal audit function by reconstituting the Audit Committee with a majority of financial-literate external members.
25. Responding to the recommendations of the benchmarking study, OEDO will develop its charter and update its audit manual to incorporate a risk-based audit methodology instead of its current systems-based methodology. This will allow audits to focus on high-risk areas. OEDI will prepare a standardized checklist to be utilized for inspections by OEDI and by regional bureaux and country directors who have an important oversight role. They will also prepare an investigation manual to include an anti-fraud and corruption policy.
26. OEDO will follow up on other recommendations from the "Best Practices in Oversight Mechanisms" paper. Principally, work will continue on mainstreaming and institutionalizing risk management in WFP, in order to present a policy and strategy document to the Executive Board in 2005 after prior informal consultation.



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## ACRONYMS USED IN THE DOCUMENT

COMPAS	Commodity Movement Processing and Analysis System
DACOTA	Data Collection Telecoms Application
ECHA	Executive Committee on Humanitarian Affairs
EMOP	emergency operation
ERM	Enterprise Risk Management
IASC	Inter-Agency Standing Committee
ICAO	International Civil Aviation Organization
OEDA	Office of Internal Audit
OEDI	Office of Inspections and Investigations
OEDO	Division of Oversight Services
OIOS	United Nations Office of Internal Oversight Services
PRRO	protracted relief and recovery operation
RIAS	Representatives of Internal Audit Services
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
WINGS	WFP Information Network and Global System

