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FINANCE COMMITTEE

Hundred and Fifty-third Session

Rome, 12-13 May 2014

Report of the External Auditor on Food Procurement in WFP

Queries on the substantive content of this document may be addressed to:

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EXECUTIVE SUMMARY

- This report presents the results of the Comptroller and Auditor General of India's audit of the World Food Programme (WFP) with regard to its performance on Food Procurement. WFP, the world's largest humanitarian agency addressing hunger worldwide, provides food in many of the world's most remote and fragile areas, on average, to 90 million people per year and purchases more than 2 million metric tons (MT) of food every year. Efficient food procurement is thus critical to the successful delivery of WFP's mission.
- Our Performance Audit on Food Procurement in WFP broadly sought an assurance that the food procurement by WFP fulfilled the policy objective of cost effective, efficient and timely purchases in a transparent manner. We covered the period (August 2011 to July 2013) in our Performance Audit. Our audit spanned the WFP Headquarters (HQ in Rome, 6 Country Offices (COs) and 3 Regional Bureaux (RBs).
- We observed weaknesses in procurement planning of WFP, as procurement plans were not being prepared which could enable it to plan ahead, keeping in mind its requirements as well as derive long term benefits with regard to price. Further, WFP's approach was largely reactive rather than strategic; as it went in for purchases as and when funding was made available. WFP also did not have a corporate supply and sourcing strategy. At the HQ level, we observed that the procurement activity was confined to silos, defined by functional activities like procurement, logistics, transportation etc., and there was a need to move to an integrated supply chain approach.
- We observed that the new initiatives of Forward Purchase Facility and Purchase for Progress had certain risks in their implementation, which had not been fully addressed. We observed cases of weaknesses in adherence to policy and guidelines governing food procurement in WFP; in processes for contract administration; in internal controls governing procurement process and in timely delivery of food grains, which needed to be addressed to ensure achievement of the objective of appropriate food commodities being available to beneficiaries in a timely and cost-effective manner. In our opinion, the IT tools did not extend to many vital pieces of information, which would add value to the procurement process.
- With regard to vendor management, we found certain deficiencies related to registration and selection of suppliers, inspection of their facilities, vendor database, invitation to vendors to bid, tracking performance of vendors etc.
- Food safety and quality was a concern area and needs to be addressed by having a comprehensive policy, based on a supply chain approach. Adequate checks on suppliers and inspectors for quality issues were also found wanting.
- We observed certain weaknesses in the functioning of oversight bodies and mechanisms. The Committee on Commodities, Transport and Insurance was unable to exercise effective oversight over the procurement activity, since it could not even hold its meetings as per laid down periodicity. Oversight by COs/RBs over procurement processes was weak and vital personnel needed to be deployed for more effective oversight.
- We recognize that the procurement wing in WFP demonstrates commitment and professionalism in ensuring that quality food reaches the beneficiaries in time, especially in conflict-ridden areas. However, there are critical areas where WFP needs to strengthen and build on current approaches to optimize the procurement performance, as summarized in our recommendations.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to consider the document “Report of the External Auditor on Food Procurement in WFP” and provide comments for consideration by the Executive Board.

Draft Advice

- **In accordance with Article XIV of the General Regulations of WFP, the FAO Finance Committee considered the document “Report of the External Auditor on Food Procurement in WFP” and made comments to the Executive Board in the report of its 153rd Session.**

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**Executive Board
Annual Session**

Rome, 3–6 June 2014

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For consideration



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REPORT OF THE EXTERNAL AUDITOR ON FOOD PROCUREMENT IN WFP



This document is printed in a limited number of copies. Executive Board documents are available on WFP's Website (<http://www.wfp.org/eb>).

NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for consideration.

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 of External Audit: Ms Alka R. Bhardwaj tel.: 066513-3071

Should you have any questions regarding availability of documentation for the Executive Board, please contact the Conference Servicing Unit (tel.: 066513 2645).

The Comptroller and Auditor General of India (CAG) provides an external audit service to the World Food Programme (WFP).

CAG's audit aims to provide independent assurance to the World Food Programme and to add value to WFP's management by making constructive recommendations.

For further information please contact:

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External Audit Report

***Performance Audit Report on
Food Procurement in WFP***



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COMPTROLLER AND AUDITOR GENERAL OF INDIA

EXECUTIVE SUMMARY

This report presents the results of the Comptroller and Auditor General of India's audit of the World Food Programme (WFP) with regard to its performance on Food Procurement. WFP, the world's largest humanitarian agency addressing hunger worldwide, provides food in many of world's most remote and fragile areas, on average, to 90 million people per year; 58 million of whom are children. It purchases more than 2 million metric tons (MT) of food every year; at least three quarters of it comes from developing countries. In 2012, WFP purchased 2.1 million MT of food worth USD 1.1 billion in over 90 countries. Efficient food procurement is thus critical to the successful delivery of WFP's mission.

Procurement policy of WFP is "to ensure that appropriate commodities are available to WFP beneficiaries in a timely and cost-effective manner. Consistent with this, WFP purchases should also be fair and transparent." WFP's Financial Rules further state that when conditions are equal, preference will be given to purchasing from developing countries. WFP's general policy is to purchase from pre-qualified suppliers through a competitive bidding process. In September 2008, WFP launched an innovative agricultural and market development support programme known as Purchase for Progress (P4P). Through P4P, WFP aimed to test ways to extend a part of its procurement knowledge to more directly benefit smallholder farmers with the capacity to supply to the quality standards required by WFP. The pilot was implemented in 20 countries over a period of five years from 2008 to 2013. WFP is also increasingly making use of Forward Purchase Facility (FPF) to purchase food. FPF is a global demand-driven financing approach to procure food most commonly distributed in a region/corridor in anticipation of individual project requests. FPF purchases greatly increased in tonnage from 527,000 MT in 2011 to 800,000 MT in 2012.

The main objective of our audit was to assess whether the stated objectives of procurement policy and the conditions in the procurement manual were being met; the risk of deviation from the guidelines raises the risk of compromising procurement objectives and the organization becoming vulnerable to reputational risk. Our Performance Audit on Food Procurement in WFP broadly sought an assurance that the food procurement by WFP fulfilled policy objective of cost effective, efficient and timely purchases in a transparent manner. We covered the period (August 2011 to July 2013) in our Performance Audit. Our audit spanned the WFP Headquarters (HQ in Rome, 6 Country Offices ♦ (COs) and 3 Regional Bureaux ♠ (RBs).

We observed weaknesses in procurement planning of WFP as procurement plans were not being prepared which could enable it to plan ahead, keeping in mind its requirements as well as derive long term benefits with regard to price. Further, WFP's approach was largely reactive rather than strategic; as it went in for purchases as and when funding was made available. WFP also did not have a corporate supply and sourcing strategy. At the HQ level, we observed that the procurement activity was confined to silos, defined by functional activities like procurement, logistics, transportation etc., without forward and backward linkages to make the procurement process holistic and there was an urgent need to move to an integrated supply chain approach.

♦ *Ethiopia, Burkina Faso, Mali, El Salvador, Honduras, Yemen*

♠ *Nairobi, Dakar, Panama*

We observed that the new initiatives of FPF and P4P activity had certain risks in their implementation, which had not been fully addressed. We observed cases of weaknesses in adherence to policy and guidelines governing food procurement in WFP; in processes for contract administration; in internal controls governing procurement process and in timely delivery of food grains, which needed to be addressed to ensure achievement of objective of appropriate food commodities being available to beneficiaries in a timely and cost-effective manner. In our opinion, the IT tools did not reflect the procurement processes very effectively. They also did not extend to many vital pieces of information, which would add value to the procurement process.

With regard to vendor management, we found certain deficiencies related to registration and selection of suppliers, inspection of their facilities, vendor database, invitation to vendors to bid, tracking performance of vendors etc. Food safety and quality was a concern area and needs to be addressed by having a comprehensive policy, based on a supply chain approach. Adequate checks on suppliers and inspectors for quality issues were also found wanting. We observed certain weaknesses in functioning of oversight bodies and mechanisms. The Committee on Commodities, Transport and Insurance (CCTI) was unable to exercise effective oversight over the procurement activity, since it could not even hold its meetings as per laid down periodicity. Oversight by COs/RBs over procurement processes was weak and vital personnel needed to be deployed for more effective oversight.

We acknowledge the fact that WFP procures an annual average of 2 million MT of food and delivers this to far flung regions of the world, many of which are affected by conflicts and displacements. On part of WFP, these adverse and diverse working scenarios necessitate quick response from it to meet the situation on the ground. We recognize that the procurement wing in WFP demonstrates commitment and professionalism in ensuring quality food reaches the beneficiaries in time, especially in conflict-ridden areas. However, there are critical areas where WFP needs to strengthen and build on current approaches to optimize the procurement performance, as summarized in our recommendations below.

LIST OF RECOMMENDATIONS

Recommendation 1 – Procurement Planning

WFP needs to formulate an integrated ‘Procurement planning framework’ based on a supply chain approach applicable to HQ, RBs and COs. The framework should inter alia contain guidance on identifying inputs required for devising a sourcing and supply strategy; make it mandatory for all entities (HQ, RBs, COs) to prepare an annual procurement plan; contain a standard template for procurement plan; define Key Performance Indicators of the procurement process; and define reporting requirements regarding periodic monitoring and evaluation of the procurement process.

Recommendation 2 – Implementation of new initiatives in food procurement: FPF and P4P

- a) WFP may consider carrying out an assessment of the effectiveness and outcome measurement (impact assessment) of FPF.
- b) WFP may consider formulating a comprehensive P4P governance guidance applicable to HQ, RBs and COs. This guidance could be designed with the overarching aim of integrating P4P with WFP’s overall procurement plan at HQ, RB and CO levels and addressing the identified risks so as to make P4P initiative effective.

Recommendation 3 – Compliance to regulatory framework

- a) WFP may consider reviewing its policy of procurement of nutritional products like super cereal plus under waiver contract, so as to meet its objective of ensuring cost effective purchases. Further, use of waivers in procurement, on the plea of urgency, should ensure their stated objective of ensuring timeliness and quality in delivery of food grains, especially in case of EMOPs.
- b) Compliance mechanism to ensure adherence to the laid down procurement policy and guidelines may also be strengthened.

Recommendation 4 – Efficiency of procurement process

- a) WFP may ensure that Inspectors for Quantity and Quality Report are different from those entrusted with the responsibility of inspecting vendors for qualification so as to avoid possible conflict of interest.
- b) Food Purchase Committee at HQ and COs may be provided information on vendor’s prior performance with regard to quality and timeliness of delivery to enable the committee to make a more informed decision.
- c) WFP needs to continue to strive to have flexible donor funding, without any restrictions for purchase, to achieve greater cost-effectiveness in procurement.
- d) COs should monitor the Terminal Obligation Dates (TOD)/Terminal Distribution Dates (TDD) and discuss potential issues with HQ early so that they do not have to resort to procurement in a hurry to meet TOD/TDD or have instances of non-adherence to the TOD/TDD.

Recommendation 5 – Use of IT tools

- a) WFP needs to standardise the use of In-Tend across COs and RBs to exercise more effective monitoring of the tendering process.
- b) Gaps in WINGS II related to vendor performance, contractual delivery date, details of default and food quality etc. need to be addressed for more effective control over the procurement process. This would make information about vendor performance easily extractable and available as an essential input in selection of vendors.

Recommendation 6 – Vendor management

WFP needs to implement a robust vendor management system at HQ, RB and COs, which should inter alia ensure -

- a) adherence to registration guidelines for all new vendors;
- b) completeness of vendor database for all the commodities and updation of database at regular intervals;
- c) expansion of vendor base to ensure greater competition and best value for money;
- d) standardizing the time given to vendors for submission of their offers; and
- e) strengthening the processes of levy of penalty due to quality or late delivery issues by the vendors.

Recommendation 7 – Timelines of purchases

RTA needs to be fixed keeping in mind the lead times and the shipping period. Adherence to RTA so fixed needs to be ensured by appropriate monitoring.

Recommendation 8 – Food quality

- a) WFP needs to put together existing policies and manuals to formulate and document a corporate food quality and safety policy based on a supply chain approach.
- b) WFP needs to consistently check its suppliers on a sustained basis for food quality issues. It may consider including performance guarantee clauses in its contract with suppliers.
- c) WFP needs to select its inspectors on the basis of technical capability and not just price. Periodic review of such inspectors need to be conducted as the Quantity & Quality reports of the inspectors are a vital mechanism in ensuring desired quality standards for WFP procurement contracts.
- d) WFP may take necessary steps to set up Food Quality Committees in all COs to address safety and quality issues at the CO level.

Recommendation 9 – Monitoring and oversight

- a) Role of CCTI needs to be reviewed and systems put in place in COs/RBs to ensure stronger oversight of the procurement process.
- b) With WFP moving into new modes of procurement, it is important to ensure that available resources and skills match, so that procurement activities are carried out effectively and efficiently.

A. INTRODUCTION

Strategic Objectives

1. The Strategic Plan 2008-2013 of WFP lays out five objectives for the organization:
 - Save lives and protect livelihoods in emergencies
 - Prevent acute hunger and invest in disaster preparedness and mitigation measures
 - Restore and rebuild lives and livelihoods in post-conflict, post-disaster or transition situations
 - Reduce chronic hunger and under-nutrition
 - Strengthen the capacities of countries to reduce hunger, including through hand-over strategies and local purchase
2. These objectives reflect the changing nature of food aid and hunger, and WFP's history, experience and comparative advantages. The Strategic Plan marks a historical shift from WFP as a food aid agency to WFP as a food assistance agency, with a more nuanced and robust set of tools (i.e. vouchers, cash and local procurement etc.) to respond to critical hunger needs. Its overarching goal is to reduce dependency and to support governmental and global efforts to ensure long term solutions to the hunger challenge. The main partners of WFP on the frontline of hunger are the national and local governments as well as the local communities. WFP seeks to add value by conducting procurement in a way that strengthens the supply side, bringing together complementary interventions by other partners.

Programme Categories

3. WFP operations are categorized into four groups:
 - **Emergency operations** (EMOPs) for food assistance to meet emergency needs;
 - **Protracted relief and recovery operations** (PRROs) for food assistance to meet protracted relief needs and support recovery after an emergency;
 - **Development projects** (DEVs) to support economic and social development; and
 - **Special operations** (SOs) to rehabilitate and enhance transport infrastructure to permit speedy delivery of food assistance and to enhance coordination with the UN and partners through the provision of designated common services.

WFP Food Procurement

4. In 2012, WFP purchased 2.1 million metric tons (MT) of food worth over USD 1.1 billion, of which over 50 *per cent* were international purchases by WFP Headquarters (HQ) and remaining was mainly local/regional purchases by Country Offices (COs) and Regional Bureaux (RBs). Food Procurements at HQ were managed by Food Procurement Service/Division (OSP), which during the main part of audit period comprised of three units of International Food Procurement, Field Food Procurement Support and Food Safety and Quality Assurance.¹ Procurement is also done by COs and RBs. According to Financial Rule 112.20, purchase of foodstuffs and related

¹ With effect from Q 2 2013, these were re-organized into four units viz. Commodity Procurement, Strategy Performance and Risk, Food Safety and Quality Assurance and Information Management and Compliance.

packaging will be made on the basis of international competition or local competition in a country or countries where the required commodity is known to be available for economical purchase and when conditions are equal, preference will be given to purchasing from developing countries. Food Procurement Policy stipulates that, in order to achieve transparency and cost-effectiveness, food procurement will be effected by selective tendering as against public tendering. Direct Contracting is only used when competitive tendering is impossible or not in the best interests of the Programme. New initiatives like Purchase for Progress (P4P) and Forward Purchase Facility (FPF) are also driving food procurement in WFP now. Oversight over the procurement process is exercised by agencies like Committee on Commodities, Transport and Insurance (CCTI) and COs and RBs.

B. OUR AUDIT WORK

Audit Objectives

- 5.** Our Performance Audit was designed to examine all aspects of procurement of food by WFP to seek an assurance that the food procurement fulfilled the policy objective of cost effective, efficient and timely purchases in a transparent manner. The audit objectives/sub-objectives were to assess whether:
 - I.** Procurement was planned to meet objectives of programme/project/emergency;
 - II.** Implementation of procurement process adhered to laid down procurement policy and guidelines;
 - a.** Kind of procurement (competitive, direct contract, P4P, EMOPs, FPF) to be made was based on justifiable reasons of economy and was well documented;
 - b.** Adherence to contractual terms and conditions was ensured and action taken for violation;
 - III.** Procurement process was efficient;
 - IV.** IT tools were adequate to ensure efficient and transparent procurement;
 - V.** Vendor management by WFP was adequate;
 - VI.** Extent of timeliness was ensured as per contract;
 - VII.** Food quality aspects got due and desired attention in procurement; and
 - VIII.** Monitoring of the procurement process was taking place.

Audit Scope

6. Our scrutiny involved analysis of documents and records and interviews with concerned officials, both at HQ and at selected six COs and three RBs. Data obtained from the Information Technology (IT) systems was also a source of information for audit. Our scrutiny primarily focused on the period from August 2011 to July 2013. Wherever necessary, data/figures for previous years were also examined. A representative sample of Purchase Orders (POs), including contracts under P4P and FPF, placed by WFP for food procurement were selected for detailed scrutiny at HQ and selected COs/RBs. The scrutiny was aimed at achieving our audit objectives. Contracts were selected on the basis of purchase value and other risk areas like those entered into for emergency operations. Where specific information was required from COs and RBs, it was sought through questionnaires by audit teams visiting these offices. These responses were suitably incorporated in this report.

Audit criteria

7. The performance of WFP in procurement of food was evaluated against its own strategic objectives and specific policies/rules/regulations/directives framed by it for managing procurement. Procurement Manual and SOPs issued for procurement function were the base documents.

Audit Methodology

8. We discussed the audit objectives, scope and methodology with the Management at HQ in Rome during an Entry Conference on 9 September 2012. We also discussed our audit findings with the Management in an Exit Conference on 4 October 2012. Our field audit teams also held entry and exit meetings in the COs and RBs to discuss the preliminary audit observations and elicit responses.

Acknowledgement

9. We thank the WFP management at HQ and also in RBs and COs for the cooperation and assistance rendered to us at all stages of audit.

C. AUDIT FINDINGS

I. Procurement Planning

10. Clause 10.2 of the Food Procurement Manual of WFP provides for preparation of a Food Procurement Plan. It specifies that a procurement plan should be developed in close coordination with pipeline, logistics, program and resource units taking into account the estimated needs of the beneficiaries, expected market availability of commodities, surpluses after harvest, likely availability of cash resources etc.
11. We observed that WFP did not have an annual, strategic food procurement plan in place for the organisation as a whole that identified areas of efficiency gains like lead time reduction and cost reduction in purchases. WFP had also not created a corporate sourcing

and supply strategy that identified commodity specific strategies based on geographical region.

12. At the HQ level, we observed that WFP's approach was largely reactive rather than strategic; as it went in for purchases as and when funding was available. We also noted that the procurement activity was largely confined to silos, defined by functional activities, like procurement, transportation, logistics etc.
13. In the RBs and COs audited by us, we found that annual procurement plan for the RB/CO as a whole, that consolidated the requirements of all projects, did not exist. In this regard, the position noted in various COs/RBs was as detailed below:
 - In CO El Salvador, based on funding available, purchases were contemplated when the prices were at their lowest.
 - In CO Yemen and CO Ethiopia, purchases were made at spot price when resources were available. CO Ethiopia was developing a procurement strategy that incorporated seasonality of price considerations to maximize the tonnage procured locally and this was foreseen to be implemented in 2014.
 - In CO Burkina Faso, planning for procurement was done taking into account best times to purchase while in RB Dakar, procurement plan for 2014 was being based on harvests, seasons etc., while in earlier years, availability of food and price was the main criteria.
14. WFP stated in October 2013 that prior to Forward Purchase Facility (FPF)², procurement action could only be initiated on receipt of donor funding. FPF has provided a platform to enable commodity sourcing strategies which are developed in collaboration with programme, shipping and logistics. Local sourcing plans were now being developed; CO Ethiopia had begun the process which would inform and be consolidated with regional and global inputs to form the 2014 sourcing and delivery strategy. It further stated that it was working closely with COs and functional units to develop supply strategies and procurement plans using the demand figures. This work was cross functional and required an integrated supply chain approach which in addition to commodity considerations would also factor in transport and storage issues; the recent Business Process Review (BPR) also confirmed this and a Working Group was developing the supply chain Key Performance Indicators (KPIs).
15. At WFP HQ, we observed that funds for food procurement were driven by programme needs and donor responses. It was stated that from 2013, the Management Plan (2014-16) would include an element of funding projection and operational requirements, with assessment of the funding gap, besides field prioritization plan. We noted that funding gap analysis and implications for programmes was undertaken and presented to Executive Board in November 2013. We feel that this analysis would need to be continuously refined to assess the actual food requirements/demands of the beneficiaries in the COs as a whole and to use these inputs for procurement planning for the next year.

² FPF is a global demand-driven financing approach adopted since June 2011 as the corporate approach to procure food most commonly distributed in a region/corridor in anticipation of individual project requests.

Recommendation 1

WFP needs to formulate an integrated ‘Procurement planning framework’ based on a supply chain approach applicable to HQ, RBs and COs. The framework should inter alia contain guidance on identifying inputs required for devising a sourcing and supply strategy; make it mandatory for all entities (HQ, RBs, COs) to prepare an annual procurement plan; contain a standard template for procurement plan; define Key Performance Indicators of the procurement process; and define reporting requirements regarding periodic monitoring and evaluation of the procurement process.

II. Implementation of new initiatives in food procurement: FPF and P4P

16. We examined the procurement initiatives of Forward Purchase Facility (FPF) and Purchase for Progress (P4P) programme and our findings are discussed in the subsequent paragraphs.

Forward Purchase Facility

17. FPF aims to accelerate food deliveries to beneficiaries by doing a forward purchase of food, based on aggregated project needs for a region or sub-region even before the request is received from COs. Introduced as a pilot in 2008, it became a new corporate approach to forward purchasing with effect from June 2011 with the aim of achieving timely, strategic, cost effective and flexible procurement focusing on addressing WFP’s global needs and shortfall projections.
18. We noted that FPF achieved an average gain in supply lead-time of 64 days for COs and the types of food purchased through FPF increased from seven in 2011 to ten in 2012.
19. We noted that FPF review report of January 2013³ highlighted the increased relevance and efficacy of FPF to improve WFP’s operational efficiency and also highlighted risks of FPF approach. We enquired about the strategies formulated for mitigation of identified risks. In response, WFP stated in October 2013 that risks and opportunities had been identified and that attention would be paid to ensure that -
- commodities were sourced at optimal time and price when considering overall supply chain cost factors;
 - through food sourcing planning and analysis, P4P sourcing opportunities were adequately captured and considered to prevent risk of missing opportunities for local purchases;
 - appropriate balance was maintained between food transfers and cash and vouchers (and other non-food related transfer modalities); and
 - increased commodities were purchased at the most favourable times (often right after harvests) where important savings may be achieved, especially if prices were low.

³ Review of WFP’s FPF was commissioned by WFP’s Advisory Group on Forward Purchase, for the purpose of reviewing progress on the expansion of the facility since the launch of a new corporate demand approach to forward purchasing in July 2011.

20. FPF Performance Measurement: We observed that WFP had not made impact assessment and cost savings data a standard part of FPF performance measurement. According to WFP, outcome measurement (impact assessment) may be considered at a later stage when process had been consolidated further and output targets had been met consistently for a few years. Regarding savings in cost, it was stated that an analysis had not been carried out as all the actual contracting involved had been undertaken by functional expertise entities/divisions following competitive bidding process etc. We are, however, of the opinion that WFP may consider going in for such an exercise, especially since it was looking to expand its FPF activity.

Purchase for Progress

21. In September 2008, WFP launched an innovative agricultural and market development support programme known as P4P. The pilot was implemented in 20 countries over a period of five years from 2008 to 2013. Through P4P, WFP aimed to test ways to extend a part of its procurement knowledge to more directly benefit smallholder farmers with the capacity to supply to the quality standards required by WFP. The vision of P4P was to promote the development of agricultural markets in such a way that by 2013, at least 500,000 low-income smallholder farmers, half of whom were women, would produce marketable food surplus and sell them at a fair price to increase their income. Between 2011 and 2013, WFP procured 161,254 MT of food through the P4P initiative.

22. With regard to governance of P4P initiative at HQ level, we observed the following:

- **Guidance/Review of P4P initiative:** HQ had proposed guidance on P4P in the form of guidance documents (1-9) between 2009 and 2011 on various issues related to P4P. However, KPIs had not been developed by WFP HQ to review and monitor the P4P initiative.
- **Expanding vendor base:** WFP had been engaging with stakeholders to expand its vendor base as most of its P4P vendors were small farmers. We feel that in order to further expand P4P initiative beyond the pilot countries, it may be necessary to develop a corporate strategy for expanding pro-smallholder procurement beyond the P4P countries and explore different aggregation models. WFP stated in December 2013 that in compliance with WFP strategic objectives, WFP HQ was in the middle of the process to develop WFP procurement strategy with an important component of procurement from smallholders.
- **Delays in delivery:** It was observed that WFP reported delays in delivery in P4P countries considering the planned and actual delivery dates, especially by medium and low capacity farmers' organizations during 2008-2013. The average time frame for deliveries ranged from 225 days in Liberia to 22 days in Burkina Faso. Delays were experienced in 19 countries, up to a maximum of 118 days in Liberia and in general, P4P contracts had an average delay of 28 days.
- **Defaults in contracts:** WFP also tracked the percentage of defaults under P4P, and it was found to be around 22 *per cent* of the total contracted quantity, with defaults occurring in COs of Kenya, Ethiopia, Guatemala, and the United Republic of Tanzania etc. We found that WFP had not planned to incorporate performance bonds in the contracts with farmers for P4P. WFP stated in December 2013 that it was not yet clear if performance bonds would reduce the default in the context of farmers' organisations but action had been taken and this was being tested in Kenya.

- 23. Mid-term evaluation:** We noted that the mid-term evaluation of the Implementation of P4P by Office of Evaluation done in 2011 highlighted issues in implementation of P4P initiative like: P4P was generally a more expensive way of purchasing food than standard local purchase; risks were insufficiently acknowledged especially with regard to working with smallholders with few financial or other assets and concomitant issues like harvest failures and price crashes; reliability of WFP as a partner was affected by issues like operational difficulties of purchasing grain in line with smallholder's expectations, and by the strategic move of WFP away from the supply of food aid; P4P purchases were found to be generally less cost-efficient than non-P4P purchases when factors like management costs as well as amortised costs for supply side investments were taken into account and; bulk of the P4P sales were captured by a small number of more productive smallholders and gross income gains that farmers were making from P4P in Africa was about half of the target.
- 24.** We enquired about the action taken on issues highlighted in the mid-term evaluation. In response, WFP stated in December 2013 that WFP was partnering with supply side actors to build the capacity of farmers in agricultural practices and the appropriate use of inputs; WFP had a target of 30 *per cent* of cash and voucher in the near future but food aid in its traditional form was still important in WFP operations; P4P was a pilot initiative so some procurement modalities would show more costs than others, but in the long run, when capacity building was done and vendors were supposed to be autonomous, the procurement could be cost efficient; an investment analysis – cost benefit analysis was being carried out with Food and Agriculture Organization (FAO) and evaluation of data was being done.
- 25.** We examined the implementation of P4P in our sampled COs and RBs and our observations are as follows:
- In COs like Honduras, El Salvador, and Yemen, demand plans made by the COs did not include P4P activities. In CO Burkina Faso, we noted that the criteria of awarding the contract to the farmers' organization was not spelt out in a PO authorization and WFP specifications were not made clear. We feel that essential details like vendor selection criteria, commodity specification details etc. need to be spelt out while approving the purchase.
 - In CO Ethiopia, defaults in P4P procurement amounted to 14,224.75 MT of value USD 5,887,184.69 (2010-2013). We analyzed the details of the vendors who defaulted during the period 2010-2012 and observed that there were vendors who had defaulted twice. There were also cases when contracts had not been entered into with the cooperative unions every year despite satisfactory performance. Our analysis of data in WINGS II revealed that the delays in the supplies contracted under P4P programme by CO Ethiopia ranged between one to 108 days.

Recommendation 2

- a) WFP may consider carrying out an assessment of the effectiveness and outcome measurement (impact assessment) of FPF.
- b) WFP may consider formulating a comprehensive P4P governance guidance applicable to HQ, RBs and COs. This guidance could be designed with the overarching aim of integrating P4P with WFP's overall procurement plan at HQ, RB and CO levels and addressing the identified risks so as to make P4P initiative effective.

III. Compliance to regulatory framework

26. Food is procured by WFP using contracting methods of competitive tendering and direct contract (waiver of competition), with competitive tendering being the general policy. We scrutinized the procurement process to see whether it adhered to the laid down policy of WFP to ensure cost effectiveness as well as fairness and transparency. We also examined procurement made under EMOPs to see whether these too adhered to the laid down procurement policy and guidelines. Gaps noticed in this regard in HQ and the field are discussed in the subsequent illustrative cases.

27. Procurement of super cereal plus through waivers: We noted that there was an increasing trend of procurement of nutritional products like super cereal plus (corn-soya blend (CSB)++) through waiver of competition. During 2011, total quantity of CSB++ procured was 10,591.47 MT worth USD 45,242.52 while in 2012, 43,748.80 MT of CSB++ for USD 103,958.44 had been procured through waiver of competition. In 2013 (till July 2013) 14,682.70 MT of CSB++ amounting to USD 40,832.08 had already been procured through waiver of competition. We noted that procurement of specialised products like CSB++ through waiver of competition was an external factor waiver⁴ as against operational waivers necessitated due to emergency situations. It was also inconsistent with WFP's policy of ensuring appropriate food commodities to beneficiaries in a cost-effective manner. CCTI in its meeting (April 2013) had also expressed its concerns on this matter. WFP stated that it was in support of creating local production of the product and the issue would be addressed as part of supply strategy for specialised nutritious products that was under development.

28. Delays in delivery for EMOP project done under waiver: In CO Ethiopia, we examined procurement of 195.48 MT Ready to Use Supplementary Food (RUSF) at a total cost of USD 725,200.00 to be used in EMOP project for beneficiaries seriously affected by the prevailing drought in the Horn of Africa. Due to the urgency, the procurement was done through direct purchasing. The price quoted by the vendor was higher than the Import Parity Price⁵ by USD 218/MT but due to the stated exceptionally urgent requirement, the Purchase Committee recommended the purchase at the price quoted by vendor, which was approved by CCTI on 9 August 2011. We observed that

⁴ External factor waivers are corporate structure waivers that could be unhealthy in terms of prices. These waivers include purchase of nutritious products having limited suppliers.

⁵ Import parity is the comparison of the price of a ton of the same food commodity after it has been transported to the same final point of destination from its source. WFP procurement officers conduct the comparison of this cost in local, regional and international markets.

the first consignment of 40 MT was shipped after a delay of nearly a month from the stipulated date of dispatch. The second and the third consignments were delivered after a delay of three and four months respectively. Thus, the EMOP project suffered even though the CO went in for a waiver from direct competition due to urgency of requirement and also paid a higher price.

- 29. Improper implementation of regional procurement for an EMOP project:** In RB Nairobi, we observed delays in the procurement of white sugar for an EMOP project. WFP HQ released Purchase Requisition (PR) for regional purchase in Uganda on 22 May 2012 for procurement of 9.5 MT white sugar with Requested Time of Arrival (RTA) date of 15 July 2012. The tender was issued by RB to five vendors in Uganda on 13 June 2012, including one against whom suspension process was initiated. Two valid bids were received but tender was cancelled as the lowest bidder was the one against whom suspension process was going on. The RB re-issued the tender on 8 August 2012 in Kenya but agreement was signed only on 17 September 2012. Though the period of delivery as per the contract was 5 October to 30 October 2012, delays and errors in inspection of commodity led to further delays and sugar was finally delivered at Kampala on 14 December 2012. The RB stated that the delay in procurement process would affect the distribution of food; however, loans and borrowings were usually done, where possible, as a fall back option where delivery was delayed.
- 30. Delay in signing contract resulting in partial delivery:** In a case in CO Yemen, we noted that though a PO was placed on 6 May 2013 for meeting pipeline/programme need for 6900 MT of wheat flour by 30 May and further 5,300 MT by 15 June, the contract was signed only on 29 May 2013. The Quantity and Quality (Q&Q) survey⁶ report revealed that 5,546 MT was dispatched by 15 June while GRN details revealed that only 3,387.50 MT was posted in the system by 15 June. The cumulative supplies reached 9,810 MT on 4 July 2013. The Procurement Unit replied that nothing came to them from programme unit about the adverse impact of above delay. The reply has to be viewed in light of the fact that it was categorically mentioned that pipeline/programme needed 12,200 MT by 15 June but the contract itself was signed on 29 May, only a day before the date of delivery of first batch of 30 May.
- 31. Lack of coordination between COs using FPF causing delay in procurement and pipeline break under EMOP:** We noted a case of procurement of 2,000 MT of beans through FPF-Djibouti corridor in CO Yemen for May 2013 distribution under EMOP-200451. Budget and Programming Unit (RMBP) of HQ issued FPF Sales Certificate⁷ for the same on 27 February 2013. Out of the 2,000 MT of Beans, CO Yemen approved a loan of 500 MT to CO Ethiopia with the repayment not later than June 2013. We observed that CO Ethiopia procured 1,500 MT Beans in Ethiopia in local currency instead of USD, leading to legal constraints for its export. As a result, CO Yemen had to proceed with International Procurement. Further, CO Ethiopia could not repay the loan as the supplier had defaulted in preparation of export documents. Thus, gaps in co-ordination with CO Ethiopia led to delays in procurement of beans and the resultant breakdowns in pipeline. CO Yemen had recorded in the lessons learnt that FPF purchase

⁶ Quantity and Quality survey is a detailed examination done by an inspector on commodities delivered from a vendor and involves sampling and analysis.

⁷ It is a transfer document between a buying CO and the organizational selling entity (FPF Special Account).

could be used effectively by floating tenders of FPF in Ethiopia, provided, a portion of procurement was explicitly earmarked for potential export before awarding the contract.

32. Short time gap between issue of POs: Analysis of POs during August 2011 to October 2013 in CO Ethiopia and CO Yemen revealed that POs/quotations for the same items were issued within a short periods of each other. We feel that creating additional POs within such short periods i.e. one day in some cases, reflects the need to strengthen the procurement planning. Not only does it increase the work, time requirement and transaction cost for the CO, it may also not allow the mission to get the best price or the economies of scale associated with larger purchases. CO Yemen replied that it always tried to ensure advance planning in procurement subject to donations received and terms of purchasing and such practices were strictly avoided in 2013.

33. Failure to take performance bond resulting in partial/delayed delivery: CO Yemen awarded a contract for purchase of 13,338 MT of wheat grain on 28 May 2012 to one of the two vendors who submitted the bids, with delivery date from 9 June 2012 to 30 June 2012. However, the supplier delayed and started delivery from 23 June 2012 and could deliver only 4,736.20 MT till September 2012 of specified quality. The contract was finally terminated in October 2012 on quality grounds. The CO asked for performance bond (which was to be submitted within 5 days of the signing of the contract), only when the supplier defaulted on the contract. The CO replied in December 2013 that the supplier was chosen on the basis of evaluation done in 2010 by the Regional Procurement Officer and he was persuaded to supply the quantities so as to avoid the increase in cost through re-tendering. We feel that the CO needs to be cautious in managing contracts and also seek performance bond at appropriate time to handle such defaults.

34. Delivery dates not fixed according to requirement: In CO Yemen, we observed that in one PO, the bid submission date was 11 May 2013 and bid validity date was 11 June 2013 but the delivery period quoted was 20 May to 20 June 2013. The contract was finally signed on 4 June 2013 with the delivery dates of 17 June to 10 July 2013. Perusal of the regret letter from one of the vendors revealed that it would have participated in the bidding process if the delivery would have been in June–July. The date of delivery as mentioned in Inter-Office Memorandum for this PR was also 30 May to 20 June. Thus, the dates mentioned in quotation were much earlier than the dates when CO wanted to procure the wheat. The decision of procurement neither served the purpose of delivery nor did it ensure fair competition with minimum three bids. In fact, the delay in signing the contract pushed the delivery date to July. The CO replied that they wanted to start the delivery earlier in order to complete it before beginning of the Holy month of Ramadan (July 2013), when a huge demand for wheat and high prices were expected. It further stated that the Procurement Unit was established in February 2012 and the performance in this regard would improve with better communication.

Recommendation 3

- a) **WFP may consider reviewing its policy of procurement of nutritional products like super cereal plus under waiver contract, so as to meet its objective of ensuring cost effective purchases. Further, use of waivers in procurement, on the plea of urgency, should ensure the stated objective of ensuring timeliness and quality in delivery of food grains, especially in case of EMOPs.**

- b) **Compliance mechanism to ensure adherence to the laid down procurement policy and guidelines may also be strengthened.**

IV. Efficiency of procurement process

35. We reviewed the procurement process followed in WFP HQ and field offices to assess whether the procurement process ensured timely, cost effective and efficient purchases. Our observations are detailed in the following paragraphs.

36. **Internal Controls in procurement process:** Risks associated with the process of procurement, as was being followed in WFP, were reviewed and our observations are detailed below:

- i. **Long term Agreements with inspectors:** Before loading of food, Q&Q survey is to be done by an inspector, who usually needs to have a long term contract/agreement (LTA) with WFP. LTA comprises activities like inspection at loading, inspection at factory premises, sampling of food in laboratories; after which an inspector submits a Q&Q report to WFP. We noticed instances where there was a possibility of conflict of interest as the Inspector for Q&Q survey was the same as the Inspector who had been selected to verify qualification of vendor for supply to WFP. WFP stated that, having assessed the risks inherent to this perceived conflict of interest, it was considered that the information from the inspector on vendors was important, and therefore it was decided to accept the risk. The information from the inspectors also supplemented data from other sources such as supplier websites, references, local WFP offices, public information, audit reports and financial information. In our opinion adequate measures should be taken by WFP to protect itself from this risk of collusion.
- ii. **PCM meetings:** Food Purchase Committee (FPC) was established under Financial Rule 112.14.g. The HQ FPC calls a meeting called Purchase Committee Meeting (PCM)⁸, which evaluates and advises on the decision to procure in terms of price and vendor. Apart from price information as well as delivery date and port of discharge information submitted in the tender invitation by vendors, it was observed that no other material was presented to PCM. Since price and timeliness are also impacted by factors like vendor's prior performance with regard to quality and timeliness of delivery, we feel that the PCM may also be provided this information to make a more informed decision. WFP stated that if the PCM required any additional information, it was always provided. However, we feel that this information be provided upfront to the Committee.
- iii. **Contract documents:** The contract documents are usually signed by the vendor as well as by WFP. However, instances of it not being dated were found. We feel that it needs to be ensured to record the date in the signed contracts in light of legal requirements. In some cases, the vendor's signature was also not available in the contract which is not a good practice. WFP stated that WFP and the vendor were required to sign and date the purchase contract and would ensure this requirement was adhered to for all contracts.

⁸ The PCM is presented by a member from the transportation wing, procurement officer and there are usually three other officers, one chairperson and two members.

- iv. Contract Administration:** Adherence to terms of the contract needs to be regularly monitored so as to ensure that the quantity tendered for are delivered in time and that the food meets the required quality parameters. In this regard we observed that:
- a.** Procurement wing at HQ kept a check on the delivery process mainly through the Inspectors for Q&Q survey who were contracted by WFP to be in touch with the selected vendor for assessing quality and quantity of food being loaded. We found that there was no formal mechanism through which HQ procurement wing could be in touch directly with the vendor regarding delivery schedules and quality. While recognizing the fact that keeping track of delivery schedules was a cumbersome and time-consuming process, there is a need to address this risk through a control mechanism. We also recognise the fact that officers of HQ procurement wing were very cognizant of delivery dates. WFP acknowledged that a more formal mechanism was required, which would be addressed with the implementation of the new commodity tracking IT system (LESS) and by entering delivery schedule for each purchase order. Regarding quality, it was stated that this process would become more structured with the implementation of FOQUS⁹, the new quality and quantity online tracking tool.
 - b.** The procurement wing at HQ contracted its Q&Q inspection by means of LTAs to six agencies, according to continent where the port of delivery was situated. We noted that in many cases, LTA with agencies closest to the port of delivery had expired and after placing of the food contract, HQ procurement wing had to tender for the services of the Inspector to carry out the Q&Q survey. Although this did not impact the delivery dates, we feel that it is necessary to keep the LTA with various vendors updated instead of tendering for it after award of food contract. WFP stated that it had noted the comments of audit and all efforts would be made to update LTAs in a timely manner.
 - c.** It was observed that in one case, the Q&Q inspector sub-contracted its Q&Q survey to another agency. This is expressly forbidden in WFP's LTA with inspectors. WFP may consider circulating an advisory to all inspectors with which it has LTAs to ensure that this practice is not repeated and cancel LTAs in case this happens on a regular basis. WFP stated that it had a clause in the RFP where it made clear that subcontracting to third parties was not allowed; this requirement would be highlighted in future LTAs.
 - d.** Once the Q&Q was done, the report was sent to WFP HQ. We observed in one case that the PO file contained the draft inspection report sent to WFP, instead of final one, with the relevant certificates. It was also observed that draft certificate was sent by the vendor to WFP for vetting before it was to be issued finally. Further, the certificates sent by the Q&Q inspectors did not specify date of testing and place of testing but carried the date on which they were issued by the Inspector. We feel that it would be a good control mechanism to state in the LTA that the Inspectors had to mention the date, time and place for the inspection to be carried out. WFP stated that the issues

⁹ It is a web-based food quality tool to facilitate a proactive approach to food quality. It will save all transaction records related to food inspection and vendor management.

pointed out by External Audit were noted and would be addressed with the inspectors.

37. Cost effective purchase impacted by donor restrictions: During 2011 to July 2013, WFP spent USD 121,651,199 for purchasing 154,046 MT of food from such countries which had tied their contributions to purchase from their own country. We noted the following two cases where WFP was unable to ensure cost effective purchases due to such donor restrictions.

- WFP HQ placed a contract with a vendor from the donor country for the supply of 15,623 MT of canned tuna flakes instead of going in for competitive contract. This was due to the fact that it was donor tied procurement – the assistance being given to WFP as a grant for food aid programme. In its reply in October 2013, WFP stated that the purchase requisition was conditioned for purchase of canned-tuna only from the donor country and also from a designated supplier.
- In another case, we observed that Procurement wing at HQ sought waiver from competition, for direct contracting due to donor restrictions for procuring yellow split peas from within the donor country from the annual contributions made. The terms of agreement (MoU) signed between the donor and WFP specified that the vendor could be only from donor country. The FPC endorsed the purchase from a nominated vendor. It was observed that if WFP were allowed to purchase from different sources, then the cost would have been USD 680, instead of USD 960 that it had paid to the nominated vendor. It was also observed that the nominated vendor had been paid 75 per cent in advance, before delivery of the food commodity. We are of the view that upfront payment before delivery was a violation of WFP's own payment rules which specified that payment would be made only after goods were received. In reply, it was stated that as per the donor condition stated in the MoU, the purchase was concluded with the designated agent and the contract was conditional upon 75 per cent advance payment; WFP had no choice but to accept it in order to conclude the required PR. It was further stated that over the years WFP had striven to increase funding flexibility and reduce restrictions.

38. Non-adherence to Terminal Obligation Dates¹⁰: In the event that WFP fails to utilize the contribution by a donor country fully within the period of availability, defined by the Terminal Obligation Date (TOD) and Terminal Disbursement Date (TDD¹¹), the Government Partnerships Division is responsible for contacting the donor and obtaining instructions to either use the funds for alternate projects or remit the unspent balance to the donor. In this regard, we observed the following:

- CO Yemen issued on 5 February 2012 an RFQ for procurement of 15,249 MT of wheat flour under seven PRs for which TOD/TDD dates were 28 February 2012/30 April 2012. However, on 20 February 2012, an addendum was issued to the RFQ and two PRs having quantity of 637 MT¹² were also included under the same PO with the TOD/TDD dates of 28 February 2012/31 March 2012. Though CCTI authorised the PO on 22 February 2012, CO Yemen took almost a month to enter into an agreement with the vendor with the delivery period

⁹ It is the last date by which POs can be raised and any deviation / non-compliance of this can lead to surrender of grants thus having an adverse impact on the mission of WFP.

¹⁰ The last day on which the relevant funds of the contribution can be disbursed

¹² 10301103 and 10301104

commencing from 7 April 2012 to 8 July 2012. The TDD dates (March 2012) in case of two subsequently added PRs were thus not adhered. Examination of records revealed that as per the contract, the bags were ready for delivery from 7 April 2012. However, in order to avoid lapsing¹³ of the USD 1.4 million of a grant from a donor, which was noticed after issuing the addendum to RFQ, CO Yemen went for re-bagging of the consignment. CO Yemen accepted the non-adherence of TDD of 30 April 2012.

- We observed that CO Yemen decided to procure wheat flour under waiver, as TOD date of 31 December 2012 was approaching. Though the PO was released on 31 December 2012, the actual contract was signed only on 12 January 2013. The CO responded that discussions about delivery schedule with the supplier, in order to meet the TDD, took some time to reach an agreement. In respect of another PO, we noted that the TOD date for a PR expired in December 2011 and the TDD date needed to be extended. The CO confirmed that there was non-adherence of the initial TDD. It also stated that the situation in the country in 2011 was the main reason for not meeting the TDD, which was extended for the purpose of refinance.

Recommendation 4

- a) WFP may ensure that Inspectors for Quantity and Quality Report are different from those entrusted with the responsibility of inspecting vendors for qualification so as to avoid possible conflict of interest.**
- b) Food Purchase Committee at HQ and COs may be provided information on vendor's prior performance with regard to quality and timeliness of delivery to enable the committee to make a more informed decision.**
- c) WFP needs to continue to strive to have flexible donor funding, without any restrictions for purchase, to achieve greater cost-effectiveness in procurement.**
- d) COs should monitor the Terminal Obligation Dates (TOD)/Terminal Distribution Dates (TDD) and discuss potential issues with HQ early so that they do not have to resort to procurement in a hurry to meet TOD/TDD or have instances of non-adherence to the TOD/TDD.**

V. Use of IT tools

39. WFP uses different IT tools across different platforms to manage and process its procurement function. As WFP's procurement activities are integrated, it is essential that inputs are made correctly and timely into its main IT tools WINGS II and FPTS¹⁴ at certain critical points in the procurement operation to enable progression to the next stage. FPTS is not part of the WINGS II system, but some of the data from WINGS II is uploaded into FPTS on a weekly basis, or more frequently if required. FPTS simplifies the paper trail of procurement and leads to the creation and completion of CCTI note¹⁵.

¹³ TOD expiring on 28 February 2012 with TDD on 30 April 2012

¹⁴ FPTS is a performance analysis and statistical tool for food procurement and an operational tool to help track procurement actions.

¹⁵ CCTI notes are post facto scrutiny of procurement cases of CO/RB and are put up to CCTI HQ.

WFP also uses a web-based tendering system called In-Tend¹⁶. Some of the observations related to functioning of the IT systems, emerging as a part of our analysis of the procurement process in HQ and field, are discussed below.

40. Use of In-Tend: In CO Ethiopia, In-Tend was used only for super cereal tenders and the platform was being rolled out in 2013 to include other food categories. The CO was of the opinion that there were limitations with respect to internet connectivity and computer literacy in the country.

- In CO Honduras, In-Tend implementation started in October 2012 and the process of teaching suppliers to use In-Tend was still on. The CO had planned that by 2014, all P4P farmers organisations would be using In-Tend.
- In RB Panama, it was observed that In-Tend had not been used for any of the POs, instead E-TAS was used.
- In RB Nairobi and RB Dakar, E-TAS was still being used as In-Tend was being rolled out. RB Dakar stated in March 2014 that efforts were being made to finalize registration of suppliers into the In-Tend system and this process would be completed by 31 March 2014.
- In CO El Salvador, we observed that vendors registered in In-Tend were invited to the procurement processes. However, the CO admitted that not all offers were received through the system due to problems like connectivity and access, obsolete computer equipment, lack of English knowledge. Therefore, the CO informed that it also considered offers that had been delivered via fax or regular mail.

41. Gaps in WINGS II: We noted that WINGS II did not have essential information pertaining to contract administration viz. contractual delivery date, quality of commodity supplied by vendor, details of penalty imposed/to be imposed, which could make the food procurement process more effective. As this information had to be culled out from each PO file, it was not clear how vendor's performance, especially repeated penalties on the same vendor was monitored and reflected in vendor's performance and database. In this regard, we observed the following.

- On the issue of system generated vendor performance report, CO El Salvador agreed that it would create a quarterly listing of vendor performance by the end of December 2013. It also agreed on-system generated report on penalty to be levied.
- CO Honduras maintained details of penalties attracted/levied and agreed to look into a system generated report for better evaluation of the vendors.
- RB Panama, however, felt that the system could also automatically alert against potential penalties related to delays by comparing the Goods Receipt Note (GRN) date with the contractual delivery date and it would take up the matter with HQ. WFP agreed to look into this customization in WINGS II.
- CO Honduras, CO El Salvador and RB Panama noted and accepted the recommendation of a system generated report on quality of commodity supplied by the vendors (as checked by the Q&Q survey firms) as presently WINGS II did not capture the same. It was felt that such a report may help in better evaluation of the vendor. WFP stated that these reports would be captured in FOQUS which had been rolled out in two RBs.

¹⁶ Easy-Tendering Application System (E-TAS) was used by WFP to allow implementation of an e-mail tendering system. This was replaced by In-Tend for e-tendering purposes.

- In 69 cases examined in CO Honduras, we observed that the “nature of business of the vendor” was blank in the Food PO Report in WINGS II. There were also some other columns which were not being filled like “waiver justification”. We observed that one vendor, who received the maximum purchase orders got more than 95 *per cent* on waivers. The reason for awarding more than 95 *per cent* of orders on waiver to a vendor (not a P4P vendor) could not be ascertained from the database as the waiver justification column was blank. The CO stated this was mainly due to restrictions on local purchase and accepted the audit recommendation on recording the waiver justification in the database.
- In CO El Salvador, we observed that in eight purchase orders, the vendor’s nature of business was blank in Food PO data. The column on “waiver justification” was also not filled in the Food PO data and the reasons for 24 out of 26 waiver cases during the review period, pertaining to a single vendor were not indicated therein. The CO stated that the vendor was the only provider of sugar in El Salvador, the waiver justification column was not used by the CO and it would seek HQ orientation for recording the information.

42. PO and PR Date: While examining the data on PRs and POs in WINGS II in HQ, we observed that in 2613 cases, POs were shown as created much before PR was raised and released. Like-wise, we saw the same position in COs like Honduras, Mali and Burkina Faso. WFP stated that these cases pertained to FPF and were due to a system limitation which had since been corrected.

Recommendation 5

- a) **WFP needs to standardise the use of In-Tend across COs and RBs to exercise more effective monitoring of the tendering process.**
- b) **Gaps in WINGS II related to vendor performance, contractual delivery date, details of default and food quality etc. need to be addressed for more effective control over the procurement process. This would make information about vendor performance easily extractable and available as an essential input in selection of vendors.**

VI. Vendor management

43. Vendor management *inter alia* includes issues related to vendor selection, expanding vendor base, monitoring of vendor’s performance and managing risks related to vendors. Vendor management can affect many aspects of WFP’s performance including the quality of the food that is purchased, the cost of the food, and timeliness and efficiency of delivery. Our findings on vendor management are discussed in subsequent paragraphs.

44. Selection of vendors: In WFP HQ, we observed that out of 24 vendors randomly sampled by audit, 10 vendors were awarded contracts for items like yellow split peas, white sugar, wheat flour and green peas etc. during 2011-13 but were not registered on the UN Global Market Place (www.UNGM.org) website. With respect to 13 vendors, Vendor Management Committee’s (VMC) approval regarding their inclusion in vendor roster for WFP was not available. However, each of these suppliers was found registered with WFP and had been awarded contracts from 2011 to 2013. WFP responded that

UNGM registration was implemented in WFP in 2006 and VMC was established in 2010. The 13 vendors highlighted had been working with WFP for over 10 years and prior to the implementation of UNGM and VMC. These vendors had consistently performed well and remained on the commodity rosters for this reason. It further stated that the comments of audit were noted and the registration guidelines for all new vendors would be strictly adhered to.

- 45. Invitation to bid:** The procurement policy of WFP is competition. Competition is the basis for efficient, impartial and transparent procurement. One of the ways of ensuring competition is to have a wide supplier base to which invitations are sent out as and when procurement is planned and carried out. This ensures that prices received are competitive and there is no chance of collusion among vendors to drive prices up. WFP HQ provided two vendor rosters to us - master roster¹⁷ and the vendor roster¹⁸. In this regard we observed from the PO files that invitations to tender were sent out to fewer numbers of vendors than the number of vendors listed in its vendor roster and master roster. This had the effect of limiting competition by not inviting all the eligible vendors to bid. WFP stated that the vendor rosters were constantly updated and the difference was largely due to the fact that the vendors had not been approved for registration or had not completed the registration process at the time of the tender. It further stated that solutions to streamline the vendor rosters in WINGS II and In-Tend were being explored.
- 46.** In the field, it was observed that in COs of El Salvador and Honduras, many of the vendors responded through fax and letters and were not using the In-Tend platform and there was no record of an assurance that all suitable vendors had been invited. A few discrepancies with respect to the date of the fax sent by the vendors were also observed in CO Honduras. In CO Yemen, it was observed that there were very limited vendors for the commodities procured locally i.e. only 3-4 vendors were contacted for submission of bids. At times, less than three vendors submitted their bids.
- 47. Inspection of production facilities:** A pre-qualification survey is required to be done before a vendor is qualified to tender for a particular commodity. At HQ level, we observed that out of 25 vendors randomly sampled by audit, inspection of 14 vendors was not done but they were awarded contracts during the years 2011-2013. Further, the inspectors who conducted pre-qualification survey were from the same list as those who conducted Q&Q surveys, as discussed in paragraph 36 of this report. WFP stated that comments of audit were noted.
- 48. Incomplete vendor database:** At WFP HQ, the vendor database existed across two platforms; In-Tend as well as WINGS II. It was observed that WFP's vendor database was incomplete as it did not contain vendors for some food items like rice, maize etc. WFP stated that they had no vendor database for rice, maize, salt, (excluding salt in rations for the Syrian Arab Republic), CSB, maize meal, canned fish as these were only procured by RBs and COs. However, we observed from the database that rice, canned fish, iodised salt (from Turkey) and CSB had also been procured by HQ. WFP attributed the absence of vendor databases in respect of commodities like rice, salt, CSB, canned fish, tuna to exigencies/technical issues/ tied contributions but no response was provided for other commodities. Thus, the database of vendors was not complete and

¹⁷ List of all the eligible vendors

¹⁸ List of eligible vendors commodity-wise

WFP needs to address this issue of ensuring that all vendors figure in its roster. WFP stated that a solution to integrate the two platforms, WINGS and In-Tend, was being explored for the same.

49. In the field, we observed that vendor databases were maintained in COs of El Salvador, Ethiopia, Mali, Honduras, Burkina Faso and RB Panama. In CO Ethiopia, it was observed that an approved master database existed which was reviewed twice a year. The last review had been done in November 2013 but there was no documentation of the same. We noticed that the RB Dakar did not have a separate list of vendors for the purchases undertaken by it and used the vendor database of the COs for purchases made by RB office but there was no system to ascertain if the COs were regularly updating the vendors list and sharing it with RB. In reply, the management stated that COs where RB undertakes procurement of food regularly update their supplier database; however no details regarding this were made available to us. In CO Yemen, a vendor database existed which was reviewed in November 2013 but the prior review was done only in May 2010. WFP in its reply agreed with us on the comprehensive comments on vendor management and stated that OSP had identified vendor management as one of the key issues to be addressed under the BPR.
50. **Limited vendor base:** From the data provided to us at HQ for 2011-2013 on vendors who had been awarded contracts for food procurement, we observed that six vendors had got almost 40 *per cent* of WFPs contracts. There was a need for WFP to make efforts to expand its vendor base to ensure competition and have better price and quality offers. WFP responded that a total of 207 vendors were registered on the international procurement rosters. All registered vendors were invited to participate in tenders and contracts were awarded based on the best value offers received. However, given that contracts varied enormously in volume, a more accurate view of the distribution of vendor participation in WFP contracts was the total tonnage and value that could be attributed to them (based on 2012 data - top 10 suppliers of WFP accounted for less than 27 *per cent* of the total USD value procured globally). However, it is a fact that WFP's contracts were awarded to only six vendors in terms of numbers.
51. In CO Ethiopia, there was also only one vendor noted for sugar, Plumpy nut and ready-to-use-supplementary food. In CO Yemen, analysis of 116 PRs under 31 POs/RFQs issued during August 2011 to October 2013 revealed that the CO was heavily dependent on limited vendors for its two major commodities, wheat and wheat flour, which were purchased locally. Wheat flour, which constituted 63 *per cent* of the total procurement was procured from only two vendors. Further, more than 80 *per cent* of the procurement in respect of wheat also was from the same two suppliers from whom wheat flour was being procured. It was observed that 48 *per cent* of the value of procurement was done from single vendor while top two vendors contributed 93 *per cent* share of the procurement. Thus, the vendor base of CO Yemen was very meagre. The CO responded that they had limited suppliers in Yemen who had the capacity to deliver large scales, and most of them had commitments with the local market; CO always ensured to invite at least three suppliers; since late 2012, the CO had tried to update the food suppliers' roster and intended to test the newly added suppliers with small quantities before awarding them the big quantities.
52. **Time given to vendors for submission of their offer:** The Procurement manual envisages that the closing date within which all quotations must be submitted, must give

prospective vendors enough time to prepare their offer. However, we noted that there was no uniformity about the time given in the field and at times it was not even adequate, as seen from the details below:

<i>CO/RB</i>	<i>Time given to vendor for response</i>
<i>CO Honduras</i>	<i>Four to seven days; CO informed that it had established a minimum of five (5) days for responses, could be adjusted according to CO needs, where the funds were received late and procurement process needed to be done in the minimum time.</i>
<i>CO El Salvador</i>	<i>Five working days</i>
<i>RB Panama</i>	<i>Less than ten days</i>
<i>CO Ethiopia</i>	<i>Three to eight days. No uniformity in the number of days given to the vendors to bid even when same commodities tendered e.g. beans put to tender 3 times and vendors given 3 days, 7 days and 8 days respectively to bid; for FAFFA, bidders were given 3 days and 6 days to bid in two separate tenders. Bids were invited for the purchase of Red Haricot Beans with a two day deadline for responses to vendors. No reason was on record as to why the time to bid was so short. A total of 30 vendors were invited to bid and valid responses were received only from 9 parties while 2 vendors expressed their inability to bid as the time provided to them for bidding was too short.</i>
<i>CO Ethiopia</i>	<i>Number of days for the submission of offers was driven by market conditions (availability) and urgency of requirements.</i>

53. Tracking performance: At HQ level, it was observed that vendors were tracked on the basis of a questionnaire which was to be filled up by the Food Procurement Officer in the CO. While these were not present in all the PO files, these were available in FPTs. However, it was not clear as to the use WFP made of this information as the vendor performance was not used as a feedback while selecting the vendor for a fresh contract. Further, in last two years only two vendors were found to have been blacklisted and removed from vendor roster. To ensure quality, we feel that WFP should use feedback regarding vendor's performance as criteria while awarding contracts. WFP stated that quality of the food purchased was confirmed by the independent inspection which was a compulsory component of all purchase contracts. In cases of poor performance by the vendors, the issue was brought to the VMC for review and decision, and such vendors were removed from the list. However, as pointed out earlier in para 36, VMC comments were not available to FPC and were not used as an input while awarding a contract.

54. In the field, in CO Ethiopia, deficiencies were observed with regard to vendor performance like incomplete vendor evaluation forms; Food Vendor Evaluation Form without any entry by the superintendent in respect of timely delivery and execution of contract; no post-delivery comments in the Superintendent Performance Analysis Report etc. There were cases of late delivery wherein even penalty was imposed, but the vendor performance was assessed to be satisfactory.

55. Levy of penalty due to quality or late delivery issues: According to WFP Procurement Manual, the performance of the vendor is subject to evaluation and analysis and can be removed or suspended from the roster. This includes instances of consistent late delivery

as well as poor quality of food on part of the vendor. The terms of the RFQ/contract are to generally include a performance bond, a right to cancel the contract because of vendor's default, and, in certain cases, a penalty clause for late delivery.

- 56.** In this regard in the field, we observed that in CO El Salvador, vendors were penalised and one was blacklisted during 2011-13. However, it could not be verified whether penalty was levied on all POs issued in the CO which attracted penalty provisions due to quality/timeliness issue as database did not include vendor performance, as pointed out in paragraph 41. In CO Mali and RB Panama, no cases of blacklisting of vendors were observed during 2011-13, while cases where penalty was levied was not provided as it could only be retrieved manually. In CO Yemen, there was an instance of blacklisting of vendor. CO could not give a complete list of all cases of levy of penalty, as the same had to be manually compiled. In CO Ethiopia, no vendor was blacklisted during 2011-13 and there were three instances of suspension of vendors for six months due to issues of quality and/or non-supply of agreed commodities. We however, observed non-imposition of penalty in a case in CO Ethiopia, despite supply of poor quality food. The WFP HQ legal department had been contacted and the CO was awaiting their advice.

Recommendation 6

WFP needs to implement a robust vendor management system at HQ, RB and COs, which should inter alia ensure -

- a) adherence to registration guidelines for all new vendors;**
- b) completeness of vendor database for all the commodities and updation of database at regular intervals;**
- c) expansion of vendor base to ensure greater competition and best value for money;**
- d) standardizing the time given to vendors for submission of their offers; and**
- e) strengthening the processes of levy of penalty due to quality or late delivery issues by the vendors.**

VII. Timeliness of purchases

- 57.** The main objective of WFP food procurement is to ensure that appropriate food commodities are available to beneficiaries in a timely and cost-effective manner. Consistent with this, WFP purchases should also be fair and transparent. In this regard, our observations are as under:

- 58. Timeliness of delivery:** For ensuring the objective of timeliness, Requested Time of Arrival (RTA) is an integral part of the Invitation to Tender. It is the date by which the goods are expected to be received by the CO. RTA should be realistic and should be fixed keeping in mind the established targets for the processing of international purchases. With the agreed HQ lead time standards and the Lead Time Tool, together with the Logistics expertise available in the RBs/COs, RTA should become a realistic target for service units. RTA should be actively managed as any changes, delays etc. would lead to corresponding changes in the RTA.

59. At the HQ level, from the data provided to us for the period 2011-2013, it was observed that the delivery dates (GR document date) in the cases listed below were after the RTA date:

- In two cases, the delivery of goods was beyond 100 days from the requested time;
- In eight cases, the delay was between 50 to 100 days;
- In 15 cases, the goods had arrived after 25 to 50 days; and
- In 20 cases, the delay was 25 to 7 days.

60. In certain cases, it was observed that the goods were delivered before the requested time of delivery.

- In 10 cases, the delivery of goods was 50 to 100 days before the requested time;
- In 30 cases, the delivery was between 25 to 50 before the required time;
- In 31 cases, the goods had arrived 7 to 25 days ahead of the requested time.

61. WFP stated that there were logistical tolerances within which Procurement needed to operate and in many cases the RTA was not changed in the PR because changes to PRs could not be done by the Procurement Division. The main reasons for delay included GRN entered incorrectly; quality issues related to the detection of *Cronobacter Sakazaki*¹⁹ and delays as a result of increased frequency of Q&Q analysis; late provision of containers for shipping; and supplier delays (a penalty was administered where applicable). WFP further stated that supply chain was working toward minimizing these delays where possible; however, zero delays were impossible due to the environments and logistics WFP worked within to deliver food. Early arrivals occurred only when the RB/CO confirmed that they were able to receive it and because of this demurrage is rare. Early delivery does not necessarily impact the operation; on the contrary it could be better to have commodities arrive a few days or weeks earlier. However, we feel that both late and early deliveries impact the sanctity of RTA and have implications on requirements of programmes of COs/RBs.

62. In the sampled field offices also, we observed significant cases of gap in delivery. These are discussed in **Annexure**.

63. **Delay in goods reaching the port under EMOPs:** EMOPs are the principal mechanism by which WFP responds to emergency needs at country or regional level. Under emergency situations, food has to reach the affected people at the earliest. On examination of data made available to us at HQ for 2011 to 2013, we observed that there were instances of delays in food reaching the port, which was procured to meet emergency situations under EMOPs as depicted in the table below.

<i>Time between PO date and date when goods receipt (GRN date)</i>	<i>No. of cases</i>	<i>Quantity to be delivered (in MT)</i>
<i>More than 200 days</i>	<i>1</i>	<i>154.998</i>
<i>Between 150 and 200 days</i>	<i>7</i>	<i>4558.41</i>
<i>Between 125 and 150 days</i>	<i>15</i>	<i>6052.95</i>
<i>Between 100 and 125 days</i>	<i>42</i>	<i>30855.442</i>

¹⁹ *Cronobacter Sakazai* is a bacteria. The bacterium is ubiquitous, traces were found in RUSF at factory level in July 2012 and the issue was resolved in early 2013. A panel of experts confirmed that product did not present a risk to WFP's target group.

- 64.** As a result of these delays, 41,621.8 MT of food was delayed in reaching the port, which affected the efficacy of the emergency relief operations in the affected countries. In reply, Management stated that RTA provided by the recipient country was the indicator of timeliness for the food procurement process. Further, WFP replied that the lead-time between the creation of the PO and the arrival of the cargo at the port was a function of many variables.
- 65.** In CO Mali, we noted that there were significant delays between the date of creation of POs and date of goods received in respect of 45 POs placed for EMOP- 200525 (during the period March 2012 to September 2013). In 23 cases, this was within 30 days; in 19 cases, within 30 to 60 days while in one case, the time lag was 60-120 days. In another case, the PO took more than 120 days for completion. The Management replied that in the case of the PO where it took more than 120 days to process, there were issues on quantity and the vendor which was a farmers organization had supplied extra quantity for which a fresh PR was created, causing delay in processing of this order. The Management assured that necessary steps would be taken to ensure that there was no delay in processing of POs.

Recommendation 7

RTA needs to be fixed keeping in mind the lead times and the shipping period. Adherence to RTA so fixed needs to be ensured by appropriate monitoring.

VIII. Food quality

- 66.** WFP is responsible for ensuring the safety, quality and nutritional adequacy of food it distributes. It is increasingly purchasing more food in developing countries as well as new categories of processed foods like ready-to-use-supplementary foods (RUSF), HEBs etc. Our findings on food safety and quality are as follows:
- 67. Food quality and safety policy:** We found that WFP's approach to food quality and safety was not guided by a comprehensive, corporate food quality and safety policy though a policy paper on Food Safety and Quality Management System (FSQMS) issued in 2010 highlighted the need to upgrade its operational practices of food quality and safety into a corporate priority. Further, there was no food quality and safety manual which put together the different guidance on food safety and quality matters issued from time to time by WFP. In reply, WFP stated that the longer term vision of WFP was to have in place a quality manual which would be a valuable resource. It further stated that work on this would begin in 2014 and the manual could be ready by 2015.
- 68. Supply chain approach to safety:** The 11th meeting of the Executive Policy Council (30 June 2010) approved the creation or establishment of SOPs, specifications and instructions on how to deal with food safety and quality throughout the supply chain²⁰. We observed that WFP was not able to apply the food safety and quality system at each point along the supply chain, up to final delivery points. Though, it addressed product design in its new products like RUSF but not for other categories of food. Similarly, it had standards

²⁰ All stages of the supply chain needed to be addressed like product design, process design leading to safe processing, product manufacture including packaging which lead to safe products, supply chain for safe distribution and finally consumer use for safe use.

for packaging of different food but these were more generic than product specific. WFP stated that it played an active role in the formulation of nutritious commodities spanning RUSF, HEBs, Fortified Blended Food etc., through validation of recipe, premix, antioxidants, packaging, stability, and suppliers. In addition, WFP had detailed guidelines on food storage and handling which were available as part of the logistics knowledge base. While these initiatives to address quality issues are appreciated, we feel WFP also needs to address specific concerns with regard to food quality along the supply chain as safety issues have huge ramifications in terms of health as well as loss of reputation of WFP. WFP agreed that Food Safety and Quality unit will be further strengthened for managing food quality issues across the supply chain.

69. Selection of suppliers: WFP had developed vendor assessment questionnaires for groups of suppliers like food processors, traders, grain and pulses etc. After the food safety and quality management system implementation in 2010, WFP had focused on critical commodities e.g. super-cereal, lipid-based nutrients supplement and new suppliers of processed food commodities. Of the list of 40 traders, suppliers and food processors randomly sampled by us at HQ supplying products like bulgur wheat, pasta, split yellow peas, sunflower oil, sorghum millet, RUSF, HEB, grain and pulses etc., only 15 reports of quality assessment were available, that too for processes in new products like RUSF, HEB etc. Assessment reports of suppliers for products like wheat, pasta, split yellow peas, sunflower oil, sorghum millet were completely absent. As such, its control over the suppliers to check for quality issues was inadequate. While noting our comments, WFP stated that in an environment of limited resources, WFP had concentrated its efforts on the areas of highest risk.

70. Selection of inspectors: We observed at HQ that the selection of inspectors takes place on a price contract and not after assessment of their capability to conduct such surveys. WFP stated that assessment of these inspection companies had been done to assess their capacity, but such reports were not made available to us. It was also observed that in some cases the same inspection company did inspection to pre-qualify a vendor and also did the Q&Q survey for the same vendor which was not a good control mechanism, as highlighted in paragraph 36 above. Further, the inspection companies took samples of the food and sent them to various laboratories for analysis. It was observed that WFP did not conduct regular inspection of these laboratories to check whether they were compliant to national/international standards. WFP stated that it appointed inspection company through tenders and selection was done on a technical basis which covered accreditation/certification, expertise, appropriate/calibrated/well maintained equipment, and the presence of a quality assurance system. When there was no LTA in place, the selection of inspectors took place on a competitive price basis, based on pre-qualification. Laboratories had been visited to assess their technical capabilities though due to the limited number of staff, this activity was not done systematically. It also stated that the procurement wing at HQ was finalizing a superintendent strategy to strengthen the long term engagement, training and relationship building with the companies, which would be submitted to management for approval and adequate resources allocation.

- 71. Partnership with other agencies in area of food safety and quality:** WFP did have an active engagement with other agencies working in this area, including FAO and World Health Organization (WHO). Partnership with FAO was proposed and approved in the 11th meeting of the Executive Policy Council (30 June 2010). It stated that a Memorandum of Understanding (MoU) had been prepared by FAO and WFP. The MoU was expected to facilitate closer cooperation and knowledge sharing between the Parties in preventing and mitigating the emerging risks associated with food safety and quality. However, operationalization of this MoU was pending.
- 72. Food Quality Committee:** It was decided in the 11th meeting of the Executive Policy Council, 2010 to create a country office Food Quality Committee (FQC) led by the Director/Deputy Director. The role of this body was to help in implementation of improved system and to inform Executive Policy Council at HQ on safety/quality issues. In this regard, it was observed that there was no FQC in COs of El Salvador, Yemen, Ethiopia, Honduras, Burkina Faso and Mali. In response, WFP stated that, resources permitting, this would be done.
- 73. Food quality incidents reported to HQ:** In CO El Salvador, it was observed that there was one instance regarding quality in September 2013 with respect to the quality of High Energy Biscuits (HEBs) which were procured from a supplier in UAE. HEBs arrived in CO El Salvador in May 2012 but many units had degraded in quality. In CO Yemen, there was an instance of sub-standard quality where a penalty of USD 326,000 was also applied. In RB Nairobi, poor quality of food was delivered in 2011, and 2012 which led to reconditioning and in some instances rejection by the receiving COs.
- 74.** In a case regarding poor food quality, we observed in CO Ethiopia that super cereal supplied did not conform to WFP specifications. Five lots of the consignment had bacterial contamination as seen in the inspection report. WFP accepted and paid for two of the consignments in anticipation of subsequent improvement, but no action was taken by the vendor to meet all WFP specifications on quality. It was stated that WFP accepted two lots from suppliers, as per WFP HQ food safety unit recommendations. In the meantime, the supplier was suspended from participating in future tenders. In another case related to poor quality in CO Ethiopia, the Superintendent Company inspected the Red Haricot beans and rejected the total quantity as it did not meet the quality requirements stipulated in the contract agreement and supplier was advised to further clean the beans to meet the desired quality level to which the supplier agreed, after request for time extension. It was seen that the CO accepted the first lot of 220 MT on 22 August 2013, even though the item did not conform to the WFP specifications. The reason assigned was the difference in the contract price and the prevailing market price and to maintain supplies for pipeline purposes. The balance quantity of 380 MT was not accepted because of quality of supply not meeting WFP specifications. The contract with the supplier was finally terminated.

Recommendation 8

- a) **WFP needs to put together existing policies and manuals to formulate and document a corporate food quality and safety policy, based on a supply chain approach.**
- b) **WFP needs to consistently check its suppliers on a sustained basis for food quality issues. It may consider including performance guarantee clauses in its contract with suppliers.**
- c) **WFP needs to select its inspectors on the basis of technical capability and not just price. Periodic review of such inspectors need to be conducted as the Q&Q reports of the inspectors are a vital mechanism in ensuring desired quality standards for WFP procurement contracts.**
- d) **WFP may take necessary steps to set up Food Quality Committees in all COs to address safety and quality issues at the CO level.**

IX. Monitoring and oversight

75. Monitoring and oversight is essential to ensure that laid down policy and guidelines are being followed as well as to give recommendations for improvement of processes and systems. Our observations in this regard are discussed in subsequent paragraphs.

76. **Oversight by CCTI:** The Committee on Commodities, Transport and Insurance (CCTI), an oversight body, was established with the main purpose to oversee and review, on ex-post-facto basis, contracting arrangements made to procure commodities, transportation or insurance issues. It was to meet once a quarter to review last quarter activities. Review by CCTI provided important supervisory controls on the procurement activities so that remedial action on the various issues noticed could be taken for future. We examined the agenda and the minutes of the various CCTI meetings during the period of audit to assess the adequacy of its oversight role and noted as under:

- i. **Role of CCTI:** CCTI was established when there was much less structure, guidance and governance of procurement. Under the newly adopted 'Fit for purpose' approach of WFP (since February 2013), more delegations and decision making relating to procurement is likely to be vested with local authorities, with accompanied risks. We feel that CCTI thus needs to reassess its role to determine whether resources are being used to evaluate risks in the right way. WFP informed us that the proposed increase in delegation of procurement authority would be supported with strengthened oversight, which would include trend analysis. The subsequent review process would be formulated with input from CCTI to ensure that resources were being used to evaluate risks in the right way. To assist the CCTI in its role, an MOU had been signed with the Office of Internal Audit to review documentation in advance of the meeting.

- ii. Periodicity of CCTI meeting:** CCTI is mandated to meet every quarter. However, it was observed that meetings of two quarters were generally combined to one. In fact, in the combined meetings of 3rd and 4th quarters of 2012 held on 4 April 2013, the members themselves admitted that due to fairly long agenda and heavy discussions, it was difficult to cover all items comprehensively within sixty to ninety minutes. In such circumstances, we observed that CCTI was unable to effectively monitor all the issues related to procurement activity. In response, WFP stated that due to operational exigencies, CCTI meetings were subjected to frequent rescheduling and CCTI was not departing from its terms of reference. It is felt that to perform a meaningful and effective oversight role, CCTI is required to meet every quarter as per the laid down periodicity of meeting.

77. Oversight by RBs/COs

- i) Oversight missions:** One of the functions of the RBs is to exercise oversight over the procurement process in the COs through oversight missions. In this regard our findings are tabulated below:

<i>Countries</i>	<i>Observations</i>
<i>RB Panama</i>	<i>Not conducting/not planning periodical oversight missions considering risk factors and also delay in taking action on the oversight mission reports</i>
<i>RB Nairobi</i>	<i>No detailed risk assessment of the COs under the RB, according to functional areas had been done for conducting the oversight missions, except by the Finance Wing</i>
<i>RB Nairobi and RB Dakar</i>	<i>RBs had shortfalls in conducting oversight missions for procurement</i>

- ii) Oversight by RBs on food procurements geared to meet objectives of new organisational design (Fit for Purpose):** Business Process Review (BPR) is one of the work streams launched in the organizational strengthening in WFP which looks at the key business processes in terms of performance, cost, quality, accountability and alignment with WFP's Strategic Plan Review and "Fit for Purpose" organizational design. With reference to this, we observed that:
- a) Adequacy of staff and delegation levels:** WFP did not have procurement officers in all its COs/RBs. There was a mix of procurement officers and procurement focal points depending on the level of procurement activity. We noted that WFP HQ was making an assessment regarding whether the staff for procurement was adequate to its needs. WFP stated that the offices carrying out the largest volumes of procurement had one or more international procurement officers supported by a team of national staff. With the new organisational re-design, increase in powers and responsibilities of the COs (with possible increase in delegation of procurement authority to COs) and new purchasing mechanisms which were more CO-based like P4P and FPF, WFP was reviewing staffing and training requirements as part of its BPR and will determine adequacy of staff to meet procurement objectives.

- b) Deployment of food technologists:** To pay greater emphasis on quality and safety issues, it was approved in 2010 that food technologist posts should be maintained in Bangkok and two new positions established, one in Kampala and one in Johannesburg. It was observed that there was a food technologist post in Bangkok and Uganda, while Johannesburg did not yet have a post, as funding needed to be secured. WFP stated in December 2013 that it was committed to having a food technologist in each RB to implement the Food Safety and Quality Management System.

Recommendation 9

- a) Role of CCTI needs to be reviewed and systems put in place in RBs/COs to ensure stronger oversight of the procurement process.**
- b) With WFP moving into new modes of procurement, it is important to ensure that available resources and skills match, so that procurement activities are carried out effectively and efficiently.**

Annexure: Gap between delivery date and RTA in COs

Country	Cases
CO El Salvador	<i>Out of 224 cases, in 12 cases the GR Doc date was more than 30 days after the RTA; in 33 cases, difference was more than 10 days and less than 30 days; in 15 cases, Goods doc date preceded the RTA by 10 to 29 days. In response, the CO explained 15 POs where Goods doc date preceded the RTA and in most of the cases, the delivery was stated to be as per the contractual delivery date. However, contractual delivery date was not captured in the system to be able to assess the timeliness of delivery.</i>
CO Ethiopia	<i>Seven PRs under four POs in EMOPs showed time lag of 5 to 105 days calculated from the RTA discharge date to GR Doc date. Analysis of 274 POs of all categories revealed that GR Doc date was after the PO RTA Discharge date in 183 instances, the difference equal to/more than a month in 73 cases; in 72 cases out of 75 purchases delivered under FPF, GR Doc date was 21 days or more beyond RTA. CO Ethiopia responded that average delay was 28 days and that PO RTAs take into consideration suppliers capacities. In large contracts/contract with super cereal suppliers, delays could occur for logistics reasons and/or power supply, difficulties in procuring raw material, etc. In case of P4P procurements (41 cases where RTA date had passed) there were delays in delivery of food items ranging between 1 to 108 days.</i>
CO Honduras	<i>In 188 out of 526 cases (including all line items), GR Doc date was posted 0-73 days after the RTA date. In remaining 338 cases, it appeared that the GR doc date was even before the RTA date as the difference was negative. In response, the CO stated that RTA was established in the Import Parity Form according to project needs and should be realistic taking into consideration time for procurement process and that this RTA was included in the PR when created and should be adjusted in the PO creation level according to the contractual date. However, in our view, contractual date was expressed in the contract as RTA and hence cannot be different.</i>
CO Burkina Faso	<i>Two cases of P4P were seen in the sample of POs and delay ranged between 10-30 days in both cases.</i>
RB Nairobi	<i>Scrutiny of PO files and analysis of database in WINGs showed that out of 15 PRs (6 POs), in none of the PRs except 1, the 'Ship To Date' was prior to 'RTA date' thus the initial date fixed as per the tender was after the RTA-- time gap worked out ranged between 5 to 112 days. In case of 9 PRs, even the Ship From date was also after the RTA discharge. The gap between the RTA Discharge date and GR Doc in case of 14 out of 15 PRs was 7 to 152 days. RB Nairobi stated that POs with extension on delivery dates have addendum approving extension of delivery, attached to the contracts and no penalties were applied as extensions were approved. Further analysis revealed that this delay (Actual procurement against the Requested Time of Arrival date) especially for the EMOPs and FPF was found to be in the range of 22 to 152 days and 55 to 143 days respectively.</i>
CO Mali	<i>Date of delivery of goods was after the requested date by 10 days or less in 3 POs; Between 10-30 days in 8 POs; More than 30 days in 1 PO. Date of delivery was earlier than the requested date and early by 10 days or less in 2 POs, 10-30 days in 18 POs, More than 30 days in case of 13 POs in 10 cases goods were sent more than 30 days prior to the date requested. In one particular PO, RTA date was 31 December 2013 while the rice was delivered on 27 May 2013 almost 6 months in advance. In reply, the management stated that the time gaps arose due to problems faced by the vendors in arranging the transport.</i>

ACRONYMS USED IN THE DOCUMENT

BPR	Business Process Review
CCTI	Committee on Commodities, Transport and Insurance
CO	Country Offices
CSB	corn-soya blend
DEV	Development projects
EMOP	emergency operation
E-TAS	Easy-Tendering Application System
FPC	Food Purchase Committee
FPF	Forward Purchase Facility
FQC	Food Quality Committee
FSQMS	Food Safety and Quality Management System
GR	Goods Receipt
GRN	Goods Receipt Note
HEB	High Energy Biscuits
HQ	Headquarters
KPI	Key Performance Indicator
LESS	Logistics Execution Support System
LTA	long term contract/agreement
MoU	Memorandum of Understanding
MT	metric tons
OSP	Food Procurement Service/Division
P4P	Purchase for Progress
PCM	Purchase Committee Meeting
PO	Purchase Orders
PR	Purchase Requisition
PRRO	protracted relief and recovery operations
Q&Q	Quantity and Quality
RB	Regional Bureaux
RMBP	Budget and Programming Unit
RTA	Requested Time of Arrival
RUSF	ready-to-use supplementary food
SO	special operation
TDD	Terminal Disbursement Date
TOD	Terminal Obligation Date
UNGM	United Nations Global Market Place
VMC	Vendor Management Committee
WHO	World Health Organization