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## FINANCE COMMITTEE

**Hundred and Forty-second Session**

**Rome, 7 - 8 November 2011**

**Report of the External Auditor on Procurement of Landside Transport,  
Storage and Handling Contracts**

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

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## EXECUTIVE SUMMARY

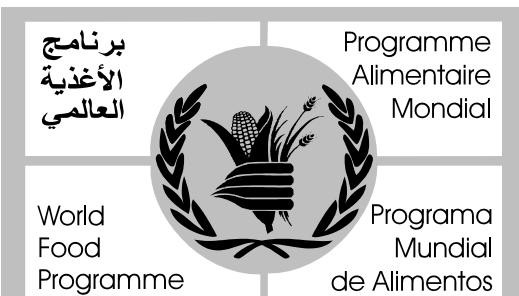
- This report presents the results of the Comptroller and Auditor General of India's audit of the World Food Programme (WFP) with regard to its performance on Procurement of Landside Transport, Storage and Handling (LTS defence) contracts. LTS defence accounts for 25 percent of the operational costs of WFP to pre-position food at various locations.
- The main objective of the audit was to assess the compliance to prescribed procedures in LTS defence management and seek an assurance that process leading to selection of service providers, is transparent and ensures WFP value for money. Our audit spanned the WFP Headquarters in Rome, eight Country Offices (CO) and 2 Regional Bureaux (RB).
- We found accumulation of surplus in the LTS defence budget year after year, even as other components of the project suffer shortfalls. In principle, the trends in expenditure on LTS defence budget should be aligned closely to that of commodities. We found that while WFP achieved to distribute on an average, 90 percent of the planned tonnage in the last 5 years, the actual expenditure on LTS defence was 62 percent of the budgeted cost. The LTS defence budget is estimated on the basis of a Rate established for each project, which is required to be reviewed regularly every six months. The actual LTS defence rate averaged around 68 percent of the estimated rate, indicating a tendency towards inflated estimations. There was also a tendency among COs to shy from downward revisions of the rate under favourable market conditions.
- The Logistics Capacity Assessment that equips the CO with a planning framework, was in arrears in most COs, which was attributed to resource crunch or access constraints.
- The COs are required to shortlist transporters within the country who meet the eligibility requirements. Performance of existing shortlisted transporters is to be monitored/ evaluated on a monthly basis; the results are used to update the shortlist. We found a need for greater objectivity in the evaluation.
- We are happy to note that a bidding process preceded the award of transport contracts in COs. However, there were instances of deviations which limited the competition and provided unfair advantage to some while denying a level playing field to all bidders. These limitations impacted the value for money fetched by WFP in contracts.
- WFP benefits from an oversight committee on Transport and Insurance which needs to meet with greater regularity. Compliance Mission Reviews from Headquarters provide timely guidance to the COs.

## GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to consider the document "Report of the External Auditor on WFP's Procurement of Landside Transport, Storage and Handling (LTS defence) Contracts" 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 "Report of the External Auditor on WFP's Procurement of Landside Transport, Storage and Handling (LTS defence) Contracts" and made comments to the Executive Board in the report of its 142nd Session.



**Executive Board  
Second Regular Session**

Rome, 14–17 November 2011

# **RESOURCE, FINANCIAL AND BUDGETARY MATTERS**

## **Agenda item 5**

*For consideration*

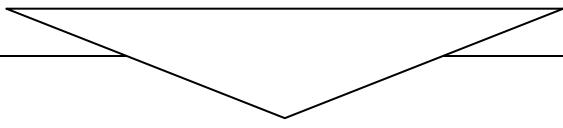
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## **REPORT OF THE EXTERNAL AUDITOR ON PROCUREMENT OF LANDSIDE TRANSPORT, STORAGE AND HANDLING CONTRACTS**

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 R. Mathai tel.: 066513-3071

Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms I. Carpitella, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).

**The Comptroller and Auditor General of India (CAG) was appointed as the external auditor for the period from July 2010 to June 2016 of 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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# Report of the External Auditor on “Procurement of LTSH contracts”

## World Food Programme



**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 Procurement of Landside Transport, Storage and Handling (LTS defence) contracts. LTS defence accounts for 25 percent of the operational costs of WFP to pre-position food at various locations.

The main objective of the audit was to assess the compliance to prescribed procedures in LTS defence management and seek an assurance that process leading to selection of service providers, is transparent and ensures WFP value for money. Our audit spanned the WFP Headquarters in Rome, eight Country Offices (CO) and 2 Regional Bureaux (RB).

We found accumulation of surplus in the LTS defence budget year after year, even as other components of the project suffer shortfalls. In principle, the trends in expenditure on LTS defence budget should be aligned closely to that of commodities. We found that while WFP achieved to distribute on an average, 90 percent of the planned tonnage in the last 5 years, the actual expenditure on LTS defence was 62 percent of the budgeted cost. The LTS defence budget is estimated on the basis of a Rate established for each project, which is required to be reviewed regularly every six months. The actual LTS defence rate averaged around 68 percent of the estimated rate, indicating a tendency towards inflated estimations. There was also a tendency among COs to shy from downward revisions of the rate under favourable market conditions.

The Logistics Capacity Assessment that equips the CO with a planning framework, was in arrears in most COs, which was attributed to resource crunch or access constraints.

The COs are required to shortlist transporters within the country who meet the eligibility requirements. Performance of existing shortlisted transporters is to be monitored/ evaluated on a monthly basis; the results are used to update the shortlist. We found a need for greater objectivity in the evaluation.

We are happy to note that a bidding process preceded the award of transport contracts in COs. However, there were instances of deviations which limited the competition and provided unfair advantage to some while denying a level playing field to all bidders. These limitations impacted the value for money fetched by WFP in contracts.

WFP benefits from an oversight committee on Transport and Insurance which needs to meet with greater regularity. Compliance Mission Reviews from Headquarters provide timely guidance to the COs.

## Summary of recommendations

### We recommend that:

1. *The assumptions used in budget estimations, more particularly the LTSH matrix cost, should be reviewed to better reflect the variations in cost over the life cycle of the operation.*
2. *WFP must work out a threshold level that will help red flag significant variations in the LTSH rate over the threshold. These cases must be put through a separate review and closer monitoring to avoid accumulation of surplus.*
3. *Performance rating of existing transporters should be based on relevant, complete data on the achievement of past contractual obligations.*
4. *Request For Quotations (RFQ) should be issued to all shortlisted contractors. Those contractors who repeatedly did not meet past contractual obligations should be removed from the shortlist.*
5. *A two-bid system provides for weeding out ineligible contractors on the basis of technical evaluation. The subsequent selection should be based only on the ratings on financial offers alone.*
6. *Criteria for evaluation of bid offers should be mentioned in the RFQ for greater transparency.*
7. *Actionable points in the Compliance Mission Review Reports should be identified and monitored and the report submitted to the Committee on Transport and Insurance (CCTI).*
8. *Efforts must be taken to ensure regular meetings of CCTI.*

## I Introduction

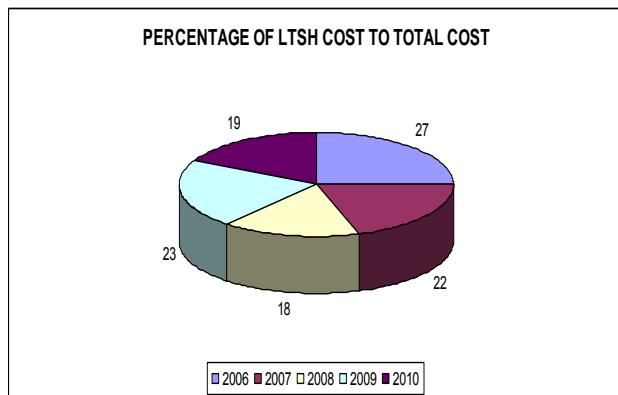
1. Landside transport storage and handling (LTS defense) costs account for about 1/4<sup>th</sup> of the operational cost borne by WFP to pre-position food at various locations. The other costs include the purchase cost of food; transport across international borders (called external transport); and other direct operational and support costs.

Components	2006	2007	2008	2009	2010*
(Value in million US\$)					
Total cost	2665	2753	4103	3782	2959
Food cost	979	1262	2150	1740	1415
LTS defense cost	721	597	737	853	562

\* Figures of 2010 are up to December 10, 2010

2. LTS defense includes:

- transportation of food from the landing ports (say, after a shipment) till the borders of the recipient country (where food is to be distributed);
- internal transport within the borders of the recipient country as well as storage and handling costs till the point of final distribution.



## II Our audit

### Objectives

3. The stated objective of WFP on LTS defense is transportation of commodities the most efficient, timely and cost-effective manner. This forms the basis for our audit objectives, which are to seek an assurance that:
- *the Country Offices (COs) follow prescribed procedures in key stages of management of LTS defense;*
  - *Selection of service providers is open, transparent, equitable and ensures value for money and;*
  - *Oversight provided by the Headquarters (HQ) and the Regional Bureaux (RBs) is adequate.*

## Scope

4. We covered LTSH contracts procured during the period of 2 years: 2009 and 2010 across eight COs<sup>1</sup> and 2 RBs<sup>2</sup>. We drew the sample from the data<sup>3</sup> available in the IT system — WINGS II<sup>4</sup>. In all, we examined 186 contracts<sup>5</sup> in 8 COs. For trend analyses, we used the data and figures for the past five years wherever necessary.

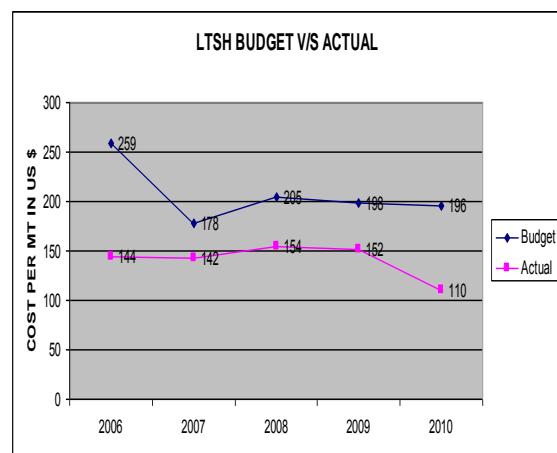
## Methodology

5. We discussed the audit objectives, scope and methodology with the top management at WFP headquarters during an Entry Conference on 22 November 2010. Our field audit teams also held entry and exit meetings in the COs and RBs to discuss the preliminary audit observations and obtain responses.
6. Our findings and recommendations are detailed in the succeeding paragraphs. The illustrative examples are only from the COs where we have cross checked the data on ground.
7. ***We acknowledge the cooperation and assistance extended by the WFP staff and Management during various stages of this audit.***

## III PLANNING

### Budget process

8. Budget is a planning tool that helps to make realistic estimations as well as to provide an effective control on expenditure. The LTSH budget is prepared on the basis of a standardised Matrix for calculation of the average cost<sup>6</sup> per metric ton of food during the life of a project.
9. An analysis of the LTSH budget over the period 2006–10 is tabulated. The actual expenditure ranged around 45 to 78 percent of the budgeted figures. The LTSH budget rose at an average of 3 percent annually; the budget for the subsequent year was always



<sup>1</sup> Afghanistan, Bangladesh, Ethiopia, Kenya, Malawi, Uganda, Myanmar and Nepal.

<sup>2</sup> Johannesburg and Bangkok.

<sup>3</sup> During the period from 1 July 2009 to 26 November 2010 WFP issued 105,777 LTSB contracts worth US\$786.54 million. Data prior to 1 July 2009 was not available in the WINGS II.

<sup>4</sup> WFP Information Network & Global Systems Version II or WINGS II is a SAP IT Application used in WFP for accounting purposes.

<sup>5</sup> 144 in Inland Transport, 24 in Overland Transport and 48 in other services.

<sup>6</sup> The rate is a composite, weighted average rate, not differentiating between destination, commodity or other variables which might lead to variations in costs.

higher, in most years much higher, than the actual expenditure during the previous year.

10. Management stated that LTS defence would be lower than budget estimates since the plans were based on the assumption of 100 percent funding of projects which was difficult to achieve. However, the variation of LTS defence budget and actual LTS defence costs does not bear close correlation with the trends in achievement of planned food distribution as seen in the table below. The variation of the LTS defence matrix cost used for estimation of LTS defence budget, from the actuals was also significant. The gap indicates the need to review the assumptions used in budget estimations, more particularly the LTS defence matrix cost, to make it more realistic and thus, useful as a control tool.

Particulars	2006	2007	2008	2009	2010
<b>I Quantity of food (in millions of MT)</b>					
a) Planned for distribution	4.7	4.3	6.2	6.3	6.4
b) Actually distributed	5.0	4.2	4.8	5.6	5.1
c) Percentage of b) to c)	106	98	77	89	80
<b>II Budgets and actual (in millions of US\$)</b>					
d) LTS defence budget	1217	764	1268	1248	1257
e) Actual expenditure	721	597	737	853	562
f) Percentage of e) to d)	59	78	58	68	45
<b>III Unit cost of LTS defence per MT (in US\$)</b>					
g) Budgeted	259	178	205	198	196
h) Actual	144	142	142	152	110
f) Percentage of h) to g)	56	80	69	77	56

#Figures of 2010 are up to December 10, 2010

11. The funds for LTS defence are made available to the CO on the basis of the LTS defence rates worked out for each project. Whenever an order for a food purchase is released under a project, a record is entered in WINGS II. Automatically, WINGS II calculates the LTS defence amount to be released by multiplying the LTS defence rate by the net tonnage of goods that has just been recorded. A specific authorisation allows the CO to spend the available funds.
12. The Transport Manual provides that the CO (RB in case of regional projects) should carry out periodical review of the LTS defence rates preferably every six months to check whether the assumptions, the transport network and the contractual rates, remain valid since the last computation. Revision of LTS defence Matrix is also required in case of significant changes in the:
- project's food basket;
  - number or type of entry points or transport corridors;
  - quantity and the ratio of local purchases to regular purchases;
  - certain transport segment rate;
  - any other parameter impacting directly the overall LTS defence rate.
13. We found that there is a tendency on the part of the COs to err on the side of caution and keep a cushion of funds, thus delaying downward revision of LTS defence rate, leading to surplus.

### Case study 1: Ethiopia

We found surplus under LTSH component in three projects, even after accounting for all commitments and anticipated expenditure till completion of the project. In the meanwhile, the CO reported project shortfalls (eg: in project 104300) due to several reasons including resource shortfalls.

Project No.	LTS defense	Requirement	Surplus (in US\$ millions)
106650	359.08	324.59	34.49
104300	18.82	17.69	1.13
101273	12.67	10.55	2.12

Further analysis of PRRO 106650 showed that the LTS defense rate for the project was revised three times within the first nine months of operation. By December 2009, the revised rate was 111 percent of the initial LTS defense rate. On the other hand, the actual rates remained lower since December 2009 which called for a downward revision of the approved rates. However, the downward revision was done one year later in December 2010. This led to the accumulation of the surplus under LTS defense.

The CO informed us that its proposal (November 2010) for re-programming to utilize the savings from the PRRO 106650, was awaiting approval at HQ. We were also told that the surplus being below 10 percent and the fact that the project would run till end 2011, it was generally within acceptable limits. In the operational context of Ethiopia, the CO found it prudent to maintain a margin on the higher side to cushion against volatility in price of fuel and other logistics related costs.

Our view is that accumulation of surplus in the LTS defense component of the project due to delay in revision of rates even as the other components experience shortage of funds, represents an inefficient application of funds.

14. Our analysis showed significant year-to-year fluctuations in the Project LTS defense Rates. The Management told us that even as several factors affect the LTS defense rate, WFP follows an elaborate process of vetting each rate including review of supporting documentation and discussions with the logistics officers in the CO and RB. We are of the opinion that the test of the effectiveness of the process, however elaborate, would be on the results achieved.

Country Office	Project No.		
		2009	2010
DR Congo	108240	1258.6	650.3
Nepal	100586	31.7	55.5
Pakistan	108280	107.8	77.5

**Recommendation 1:** *The assumptions used in budget estimations, more particularly the LTS defense matrix cost, should be reviewed to better reflect the variations in cost over the life cycle of the operation.*

**Recommendation 2:** *WFP must work out a threshold level that will help red flag significant variations in the LTS defense rate over the threshold. These cases must be put through a separate review and closer monitoring to avoid accumulation of surplus.*

### Logistics Capacity Assessment

15. An element in planning is the Logistics Capacity Assessment (LCA) that provides the CO, a framework with critical elements of the logistics links such as port/airport capacities, road and rail networks, storage facilities, handling procedures, labour rates, local transportation resources, etc.

16. We found that 17 out of 20 COs under the Bangkok RB had not updated the LCA in 2010. It was in arrears ranging from one to five years. The RB felt that while LCA is an important planning tool, it is also a resource intensive activity; lack of resources within the CO or access constraints (such as in Afghanistan) limit the ability of the COs to update the LCAs annually. We found arrears in the updating of LCAs in COs under RB, Johannesburg also as only 5 out of 19 COs under the RB had updated the LCA in 2010.

### **Identifying a pool of contractors**

17. The Transport Manual requires the CO to identify potential transporters by obtaining names from other humanitarian agencies, Chamber of Commerce and/or commercial sector. Responses to a standardised questionnaire help the CO in the selection and short listing of eligible transporters. Performance of the shortlisted transporters is to be regularly monitored through a monthly evaluation process and the shortlist is to be updated regularly.

#### **Case study 2: Afghanistan CO**

Performance evaluation prescribed for every contract provides the basis for review and updating of the yearly shortlist of contractors. This review process has some inherent shortcomings.

We found that the evaluation sheets did not provide specific information on performance against specific transport contracts capturing for example, the issue and expiry date of Land Transport Instructions (LTI)<sup>7</sup>, tonnage lifted against requested quantity and at requested times, etc. We are of the view that the evaluation should be supported by relevant data which will make the review process objective.

The short listing for 2010 highlighted the other shortcomings. The Kandahar Area Office (AO) had recommended for short listing nine of the ten existing companies. Out of the nine, five were assessed as 'Good', and four as 'Fair'. The CO while finalising the shortlist, upgraded one transporter from 'Fair' to 'Good', while the other three firms continued to be graded as 'Fair'. We are of the view that the Local Transport Committee<sup>8</sup> (LTC) should have recorded the reasons for upgrading the AO's assessment.

The CO accepted that this was due to confusion on rating systems at that time, which had been subsequently addressed in November 2009 by standardising the reporting format. We acknowledge the efforts to streamline the process. However, we found that even in March 2010, evaluation of for some contracts (e.g. Torghundi) was not conducted in the new framework; we recommend closer monitoring of implementation.

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<sup>7</sup> For transportation of commodities through the transporters, the CO issues Landside Transport Instructions (LTI), indicating the origin and destinations of the transport work, commodity details, requested dispatch date as well as the LTI expiry date.

<sup>8</sup> It is composed of at least three people, excluding the CD/RD and the Logistics Officer (LO). The members can be WFP staff or those of other UN Agencies and Partners.

Transporters were evaluated monthly on a scale of 1 to 4 with 1 graded as Poor and 4 as Excellent. The LTC evaluations, however, had a performance rating of 4 to 1 with 4 graded as Poor and 1 as Excellent. There is a need to synchronise the assessment parameters to lower the risk of improper evaluation.

### **Case Study 3: Nepal**

We found that existing short listed transporters were retained for 2011-12 season without evaluating their performance. The LTC recommended their retention merely on the ground that they were still regularly participating in the WFP tenders. Since WFP prescribes a monthly monitoring mechanism, we feel that the results thereof could have formed the basis for evaluation of the existing shortlisted transporters.

### **Case study 4: Uganda CO**

We found that the delivery date was not indicated in the contract or in the LTI to facilitate better monitoring. We were told that the LTI template does not capture the delivery date; however, the issue and expiry date (thus the validity period of the LTI) is captured. We were also assured that the actual delivery is monitored through the waybills.

We are of the opinion that the LTI should specify the date by which the transporter is expected to deliver the goods, which can make LTI a more comprehensive template for monitoring. The CO told us that as it was involved in internal and overland transport, average delivery time would need to be reviewed and established in conjunction with transporters and would be included in future contracts.

**Recommendation 3:** *Performance rating of existing transporters should be based on relevant, complete data on the achievement of past contractual obligations.*

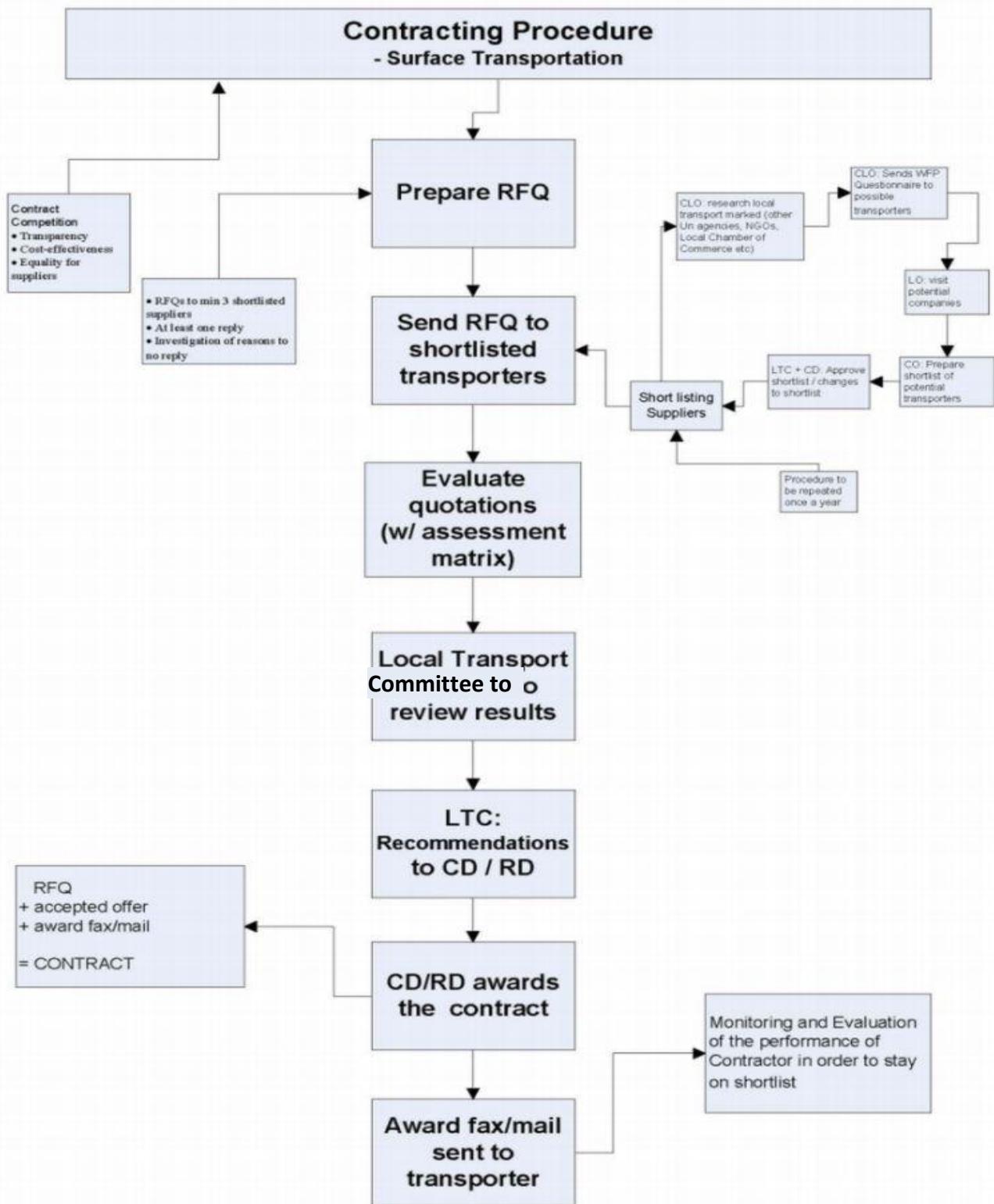
## **IV BIDDING AND AWARD OF CONTRACTS**

18. The first step to award of contracts is the Request for Quotation (RFQ) which is sent to the shortlisted contractors. The quotations are received and evaluated using a standard assessment matrix. The LTC examines the results of the evaluation and makes its recommendation to the Country Director (CD) or Regional Director (RD), whichever has the delegated authority. The RD/CD then awards the contract. The RD/CD has the delegated authority to approve/disapprove the recommendation of the LTC, irrespective of the amount involved, but while doing so, the reasons for disagreement should be fully documented.
19. An alternate system of contracting is the tariff system which establishes a transport rate, or tariff<sup>9</sup>, that is proposed to the shortlisted transporters. All shortlisted transporters who accept the tariff are then paid the same rate. This type of contract is utilised in instances where WFP's operational requirements necessitate multiple transporters on the same routes.

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<sup>9</sup> A tariff may be established per mt/destination, per kilometre/ton or in exceptional cases for daily-rate contracts.

20. The flow chart below illustrates the contracting process.



21. We are happy to note that a bidding process preceded the award of transport contracts in COs. However, there were instances of deviations which limited the competition, impaired the transparency and provided unfair advantage to some

denying a level playing field to all bidders. These limitations impacted the value for money fetched by WFP in contracts.

### **Case Study 5: Nepal CO**

#### **Transportation Contracts from Nepalgunj warehouse**

We found that the CO had entered into a MOU for six months with a transporter with effect from May 2008. The MOU was extended eight times till October 2010 with revision in rates adjusting them with price of diesel. The CO told us that this was driven by scarce transport market and that the extensions were based on a market survey and for recorded reasons (being lack of infrastructure and trucking capacity).

In September 2010, RFQs were sent to six transporters of the 17 parties in the shortlist (updated in May 2010). This was justified on the ground that individual transport companies are not equipped to make timely deliveries of the large volume of food in mid and far western Nepal. The reasonableness of the proposed rates was validated with the "Federation of Truck Tanker and Transport Entrepreneurs". We are of the view that the proposed rates should have been kept confidential since some of the bidders who participated in the RFQ could be members of the Federation and conflict of interest could not be ruled out.

Four bidders submitted the RFQ. Two of these agreed to participate in negotiating a counter offer proposed by the CO. The other two informed the CO that they were willing to work at the rate to be negotiated by one of the two participating bidders. This raises doubts of possible collusion and operation of cartels.

We examined the performance of one of the successful bidders in 2010 with respect of two purchase orders and found delays ranging from 13 to 49 days in lifting the material after the date indicated for the uplift (in the LTI issued by the CO). Allowing the transporter to lift commodities after the due date and after the LTI expiry date undermines the controls on contract implementation and timely delivery of commodities. The CO told us that the expiry of the LTI escaped its attention due to excessive workload and that corrective measures had been initiated to avoid its recurrence.

### **Case Study 6: Afghanistan: Herat 2010**

#### **a) RFQ for transportation**

We found that the lowest two offers received in response to the RFQ, were rejected. This was despite the fact that in the LCA Report (June 2008), these two were recognised as major transporters in the Region. The CO told us that the offers were unrealistic and hence rejected.

The instructions allow that if the lowest bidder(s) failed to meet the contract obligation, the contract may be awarded to the next higher bidder with the cost difference deducted from the bank guarantee. If the recovery is not possible, a case for suspension or blacklisting may be initiated. These controls are meant to thwart unrealistic bid offers. The rejection of the lowest offer in this scenario would appear to be unjustifiable.

### **b) RFQ for clearing and forwarding at Turkmenistan – Afghanistan border**

The RFQ was sent to five parties. The lowest bid for bagged cargo bid was rejected. The CO told us that customs clearance rate offered by the bidder was found untenably low on an empirical basis. On the other hand, its handling cost was very high and hence, the composite work was awarded to the next higher bidder so as to not split the agreement.

We found that overall the bid amount of this bidder was still the lowest even after considering the high handling cost. In the previous year also, the composite bid amount was the basis for award of contract. The disaggregation of bid components to reject the lowest bid was questionable.

### **c) Adherence to requirements of RFQ**

One of the conditions of the RFQ for transportation contracts, is the submission of a Bank Guarantee (BG) of US\$5,000 which is used as a performance bond<sup>10</sup>. We found that with regard to the transportation contracts for a period of one year (January 2010 to December 2010), only two contractors had furnished BGs for the full period of the contract. Four did not furnish any BGs at all while seven had furnished BGs that had expired during the currency of the contract.

The CO said that it had been informally informed by the bank that BGs did not need renewal and that they would be cancelled only upon request from WFP, which meant that all the current BGs were valid until the CO informed the bank otherwise. The CO, however, accepted that this was not a formal procedure and that they would follow up with the bank for the renewal of the BGs.

### **Case Study 7: Ethiopia CO:**

#### **a) RFQ for overland transportation from Djibouti Port: October 2010**

The quotes received on the RFQ were evaluated in December 2010, wherein it was decided to compute a counter offer, the methodology for which was as under:

- An additional 0.05 Birr per ton per KM would be added to the quoted rates for the destinations that the fertilizer agency used;
- For other destinations, the average of 15 “realistic” offers would be used to compute the counter offer rate; transporters believed to have made realistic offers were to be considered.
- Wherever required other factors such as road conditions, re-directed routes, efficiency in unloading and transit time would also be taken into consideration.

We think that the decision to provide incentives to bidders after they had offered their rates to a RFQ, was questionable. The CO told us that it was facing shortage in truck capacity and the intention was to capture majority of transporters’ capacity. We were further informed that currently, performance bond was being collected in order to make transporters committed to the offer.

The above computation was predicated on a subjective criterion of 15 “realistic” offers. The supporting documents did not reveal how these 15 offers were identified or how were they found to be “realistic”.

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<sup>10</sup> In case of failure to meet contractual obligations, recoveries can then be affected from the performance bond.

We also found that counteroffers were issued to nine transporters who had not participated in the RFQ process. We were told that at that time (peak when Djibouti Port was congested), WFP was in desperate need of capturing additional capacity. The CO further assured that in future approval of the competent authority would be taken in case of such deviation.

The Management felt that the particular context dictates operational judgements. We are of the view that introducing changes after the receipt of offers compromises the integrity of the process.

### **b) RFQ for transportation: September 2009**

The RFQ was invited in September 2009. During the three months that the tender could not be finalised, extensions were given. In the last month of extension, the rate was increased by 15 percent. This was given despite clear evidence that the rates fetched in the RFQ were lower than the existing contract by up to 64 percent. The CO told us that the decision was in consultation with a mission from HQ; there was increase in fuel prices by 42 percent during the period; in the tariff system the average rates were over 20 percent; and that in view of all these factors, a conservative increase of 15 percent seemed justifiable for the one month extension period. We were also told that the rates are not comparable in view of the changes in transport market dynamics.

We noted that the mission from HQ had advised revision of the tariff rates by changing the extant methodology of computation of average rates. In this situation, assuming a 20 percent higher rate is unjustified.

Further, extension for two months was given in July 2010 by giving 13 percent increase on the existing rates, as the next RFQ was being finalised. The CO stated that the revision was due to increase in fuel, peak season of coffee exports and fertilizers movements. In a scenario similar to September 2009, the tendered rates came down substantially by up to 81 percent.

We found eight instances between the period February to May 2010, where the purchase orders were placed ignoring 12 lower offers. The difference between the lowest quoted rate and the rate offered ranged from 180 to Birr to 2059 Birr. The CO stated that the bids were rejected on the basis of past experience when the contracted transporters declined to perform at the quoted rates. In some cases, the transporters were unwilling to submit their decline in writing. We were however assured that the CO would maintain a log to capture communication confirming declines which would also form part of the performance evaluation.

### Case Study 8: Kenya CO Secondary Transport from Eldoret EDP: 2009–10

The instructions require that confidentiality of individual bid offers must be maintained till they are opened together by the Tender Opening Panel; the RFQ issued in January 2009 clearly mentioned of the requirement of offers in sealed cover. Further, the RFQ also required that the offers be submitted in the prescribed forms, failing which it will be considered as void and not accepted.

We found that all the offers were received on a plain paper/letter head. The lowest bidder also submitted his quote on a plain paper without providing the RFQ reference. The envelopes were not maintained on file and there was no evidence of sealed cover procedure being followed.

### Other issues of LTS: warehousing in Ethiopia

The CO had taken five warehouses with a capacity of 33000 MTs on rent from private parties. The average capacity utilisation during 2010 was 37 percent; the highest monthly utilisation being 54 percent. Yet, three additional warehouses with capacity of 15000 MTs were taken on rent during the year<sup>11</sup>. The CO took the view that there were practical issues in capacity utilization that are borne out of logistical needs. The CO further stated that anticipating the downscaling of operations in 2011, the Logistics Unit was engaged in a warehouse consolidation exercise in November 2010, which was being finalized.

We also found that the warehouse management service was entrusted to a private agency for two warehouses (capacity of 10000 MTs) since 1997, when the available capacity was sufficient. The CO told us that the two warehouses were used entirely for vegetable oil storage to avoid possible damage to vegetable oil during fumigation of other commodities and more effective recovery/reconditioning of leaked oil.

However, it is relevant to mention that during our visit to the sub-office, we found that the vegetable oil was also stocked in two warehouses managed by the WFP where fumigation had taken place in November 2010. The Warehouse Management Manual also does not bar keeping vegetable oil along with other commodities.

**Recommendation 4:** *Request For Quotations (RFQ) should be issued to all shortlisted contractors. Those contractors who repeatedly did not meet past contractual obligations should be removed from the shortlist.*

**Recommendation 5:** *A two-bid system provides for weeding out ineligible contractors on the basis of technical evaluation. The subsequent selection should be based only on the ratings on financial offers alone.*

**Recommendation 6:** *Criteria for evaluation of bid offers should be mentioned in the RFQ for greater transparency.*

<sup>11</sup> For which additional expenditure of Birr 900,000 was incurred from the date of hiring till December 2010.

## IV MONITORING AND CAPACITY BUILDING

### Committee on Transport and Insurance (CTCI)

22. The Oversight Committee on Transport and Insurance (CTCI-Transport), in the Headquarters provides the overall oversight on transport. It is required to review, on a quarterly basis, "the adequacy of the arrangements set out for procurement of transportation and insurance and, in particular, the manner in which relevant selection procedures has been used" and make related recommendations to the Executive Director.
23. We found that the CTCI-Transport reviewed the Transport and Insurance activities of first, second and third quarters of 2009 in December 2009 and the fourth quarter of 2009 was reviewed in April 2010. The first quarter of 2010 was reviewed in July 2010 and was yet to review the second quarter of 2010 during our audit in December 2010.
24. The management told us that with the introduction of the new corporate ERP system and the Haiti earthquake, the staff was so engaged that it led to accumulated delays in submission of CTCI reports on time in 2009. The vacancy in the position of the chairperson of CTCI since April 2010 also led to delays.

### Compliance Mission Review

25. Compliance Mission Reviews from Headquarters provide an opportunity to review compliance to the requirements and also to provide timely guidance. The Logistics Division conducted Logistics Compliance Mission of Myanmar (June–August 2008), Yemen (June 2009), Philippines (April 2010) and Sri Lanka (May 2010).
26. We found that the Compliance Mission Reports were exhaustive and contained recommendations for improvement in the various aspects of transportation. In particular the recommended areas of training of staff included (i) Commodity Management/Fumigation, (ii) Funds Management, (iii) Local Transport Committee members for appropriate orientation outlining their roles and responsibilities, (iv) Warehouse management.

**Recommendation 7:** *Actionable points in the Compliance Mission Review Reports may be identified and monitored and the report submitted to the CTCI.*

**Recommendation 8:** *Efforts must be taken to ensure regular meetings of CTCI.*

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## ACRONYMS USED IN THE DOCUMENT

AO	area office
BG	Bank Guarantee
CCTI	Committee on Transport and Insurance
CD	country director
CO	country office
HQ	Headquarters
IT	information technology
LCA	logistics capacity assessment
LO	logistics officer
LTC	land transport committee
LTI	land transport instruction
LTSH	landside transport, storage and handling
MOU	memorandum of understanding
PRRO	protracted relief and recovery operation
RB	Regional Bureau
RD	regional director
RFQ	request for quotation
WINGS II	WFP Information Network and Global System II