

برنامج
الأغذية
العالمي



Programme
Alimentaire
Mondial

World
Food
Programme

Programa
Mundial
de Alimentos

**Executive Board
Annual Session**

Rome, 3–6 June 2014

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For consideration



Distribution: GENERAL

WFP/EB.A/2014/6-H/1

23 April 2014

ORIGINAL: ENGLISH

REPORT OF THE EXTERNAL AUDITOR ON UNITED NATIONS HUMANITARIAN RESPONSE DEPOT



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:

Ms. Alka Rehani Bhardwaj

*Director of External Audit
World Food Programme
Via Cesare Giulio Viola, 68/70
00148 Rome,
Italy.*

Tel : 0039-06-65133071

Email : alka.bhardwaj@wfp.org

External Audit Report

***Performance Audit Report on
'United Nations Humanitarian Response Depot'***



सत्यमेव जयते

COMPTROLLER AND AUDITOR GENERAL OF INDIA

Executive Summary

This report presents the results of the Comptroller and Auditor General of India's Performance audit on "United Nations Humanitarian Response Depot (UNHRD)" of the World Food Programme (WFP).

UNHRD is a network of depots that support the strategic stockpiling efforts of United Nations, international, governmental and non-governmental organizations. The network holds strategic stock reserves of emergency relief goods such as medical kits, shelter items, Information Technology (IT) equipment and operations support assets to support relief organizations to respond to emergencies. It has five fully operational hubs at Brindisi (Italy), Subang (Malaysia), Accra (Ghana), Dubai (United Arab Emirates) and Panama City (Panama). In addition, one new hub was being set up at Las Palmas (Spain). WFP is the manager and one of the users of UNHRD.

Our audit was aimed at assessing whether UNHRD's stated objective of strengthening the capacity and response to emergencies and promoting inter-agency co-operation was achieved. Our audit spanned the UNHRD hubs at Dubai and Brindisi (including Support Office) and WFP Headquarters, Rome. Our audit findings pertained mainly to institutional framework and emergency response; financial management; warehouse and inventory management; human resource management; control and oversight mechanism; and engagement with users/partners.

We appreciate that UNHRD is a unique concept of all humanitarian agencies under an umbrella and has various strengths like free standard services, loans and borrowings among the partners, 59 users/partners and a big network of hubs located at different locations.

We noted that UNHRD did not have a mandate to determine the state of emergency nor did it have control over the time and nature of response. The prerogative of humanitarian assistance and emergency response was of the users and UNHRD's role in this sense was not proactive but a reactive one. It only functioned as a facilitating agency for pre-positioning stocks and making shipments at the instance of partners/users. There was also no real time analysis of operational support rendered by UNHRD, hub and year-wise in various emergencies. We feel that in view of its unique position of being an inter-agency emergency preparedness and response facility, if assisted by a systematic IT tool, it can be a platform for information-sharing and timely and more effective response to emergencies.

There were other strategic issues like, need to ensure sustainability of the network based on alternative sources of funding and greater advocacy of its role with the donors. This was in view of the fact that its revenues comprised mainly of contributions from the donors and Management Recovery Cost against rendering specific services requested by users and partners. For similar reasons of sustainability, planning/creating a new hub needed to be supported with strategic planning for future funding, which needed to be done in the newly planned hub of Las Palmas, as the donor commitment was for four years, which was to expire in 2016.

Financial management needed improvement as we noted outstanding payables and receivables. Procedural delays were particularly seen in generating Service Confirmation Form after rendering the service, in raising Debit Note and also in realising payment, both for internal and external customers. This delay in service was also noted as a cause of serious concern by many users and partners.

Regarding warehouse and inventory management, we noted that both the hubs had stocks, which had not moved for three to four years. There was also no policy on space utilisation devised by UNHRD. Corporate Response Stocks needed to be reviewed for overage and usability as these were the critical stocks supplied to the personnel, who were deployed for emergency operations. Due to low demand from the country offices, High-Energy Biscuits (HEBs) stored in the two warehouses, valuing USD 125,890 had become time-expired and were consequently destroyed causing reputational risk to WFP and also a review of its policy on HEBs. The policy thus needed to be periodically revisited for assessing the demand and usage.

Despite the inherent transparency in the Transport Manual, the hubs continued to use the Goods and Services Procurement Manual for procurement of transport and logistics until March 2012. The two selected hubs of Dubai and Brindisi adopted the Transport Manual only from October and December 2012. We noted some gaps in timely transportation of emergency relief material; in the regulation of Long-Term Agreements (LTAs), attributable to the lack of trained personnel in this field and also in service delivery. Moreover, reconciliations between hubs on service deliveries were infrequent. The system improvements, envisaged for tracking of transactions, needed to be adopted early.

Human Resource Management was an area that needed attention. In view of the expertise and specific nature of services expected from UNHRD, there was necessity for distinguishing the jobs either generically or specifically. The exercise initiated for identifying terms of reference for each functional post needed to be completed early. A Structure and Staffing Review for all hubs needed to be conducted; only Dubai had undertaken this. Benchmarking for requirement of warehouse personnel was essential.

As per the circular of the Executive Director in May 2011, the Directors of Logistics, Budget and Procurement, had to issue a joint directive providing detailed instructions and guidelines on the handling, accounting and reporting procedures for the UNHRD network Special Account, which was yet to be done. There was scope for improvement in the control mechanisms currently in use, as there was no network-wise reporting.

We sought responses in a questionnaire from users on the services rendered by UNHRD and these revealed that though the users generally found UNHRD to be a strong platform with great concepts, there were concerns about the quality of various services rendered. There was thus a need for UNHRD to closely interact with all users and partners in order to appreciate their concerns and accordingly offer economic and efficient services.

List of Recommendations

Strategic Issues

Recommendation 1(a): *In order to be 'fit for purpose', UNHRD may adopt a more proactive strategy in addressing emergencies through advocacy with both existing and potential users/partners emphasizing the need for response, as well as indicating the time and nature of response, based on past lessons learnt.*

Recommendation 1(b): *UNHRD needs to have a system-based reporting functionality to capture in real time, the operational support it renders to various emergencies, for assessing its performance and serving as a Management Information System for a cost-benefit analysis of the quality of its services. This would also facilitate more donor visibility and sensitization of its role to the various stakeholders.*

Recommendation 2(a): *UNHRD should continue its current efforts of fund raising and engaging with donors for non-specific funding.*

Recommendation 2(b): *UNHRD needs to explore alternatives for assured sources of funding, based on a long-term development plan.*

Recommendation 3(a): *The funding strategy for the Las Palmas hub, beyond the donor-committed period, needs to be worked out.*

Recommendation 3(b): *New hubs may also be established, if warranted, to achieve broader objectives of the network, supported with strategic planning for future funding.*

Financial Issues

Recommendation 4(a): *A system needs to be put in place for close monitoring of receivables and timely realization of outstanding dues.*

Recommendation 4(b): *The procedural delays in generating Service Confirmation Forms and raising Debit Notes should be reviewed and minimized, with clear lines of accountability, for improving its operations and efficiency of services.*

Recommendation 4(c): *Fixed Assets reconciliation between the Asset Management Database and the WINGS-Asset Management Record needs to be conducted on priority, as also assured by WFP during the Audit of Financial Statements of 2012.*

Operational Issues

Recommendation 5(a): *UNHRD may persuade its partners to regularly monitor their respective stocks lying with the hubs and withdraw the overage and outdated items occupying space. Wherever warranted, action as per Standard Operating Procedures needs to be taken.*

Recommendation 5(b): *UNHRD may formulate a policy for allotting space to partners in the hubs on the basis of some criteria or benchmark, as deemed fit.*

Recommendation 5(c): *As the Corporate Response Stocks are of strategic significance, UNHRD needs to closely work with WFP for review and appropriate action of these overage Stocks and their replenishment.*

Recommendation 5(d): UNHRD needs to actively engage with WFP Aviation Service, to initiate action for their items, which were kept in the hub against zero value.

Recommendation 6(a): WFP needs to periodically revisit the policy of procuring and pre-positioning the High-Energy Biscuits in UNHRD hubs, taking into account their acceptability to the targeted beneficiaries, responses from the country offices, and their current as well as future relevance.

Recommendation 6(b): UNHRD hubs also need to continue to be proactive in sensitizing WFP management and all partners for making best use of food items in its hubs, prior to their expiry.

Recommendation 7: There is a need for greater transparency and promptness in the procurement of items. Inadequacies in the number of trained personnel in this field need to be addressed through appropriate capacity building.

Recommendation 8(a): Adherence to Standard Operating Procedures, in ensuring service delivery, needs to be strengthened.

Recommendation 8(b): Envisaged system improvements, in order to facilitate easy tracking of service deliveries and sales reconciliations, needs to be carried out.

Human Resources Issues

Recommendation 9: Structure and Staffing Review needs to be conducted in all the hubs within a scheduled time frame, job descriptions of all positions need to be formalized immediately, and fixing of criteria to determine the justification for the correct numbers of warehouse personnel in each hub also warrants attention.

Oversight and Feedback

Recommendation 10: Joint Directive for handling and reporting procedures for the Special Account needs to be issued on priority.

Recommendation 11: UNHRD needs to devise the common, network-wide reporting system, within a scheduled time frame, for better reporting standards and useful Management Information System.

Recommendation 12: UNHRD needs to closely interact with all users and partners to appreciate their concerns and accordingly offer economic and efficient services to them.

Introduction

1. The first Humanitarian Depot was established in Pisa, Italy, and managed by the Office for the Coordination of Humanitarian Affairs (OCHA), as per the 1984 Agreement signed between the United Nations Secretary-General and the Government of Italy.
2. As part of the Secretary-General's UN reform, the World Food Programme (WFP), as the food arm of the UN with the mandate to save lives in emergencies, was assigned the mandate to manage the UN strategic stocks on behalf of UN humanitarian agencies and other authorized users. The new facility was renamed United Nations Humanitarian Response Depot (UNHRD) in May 2000 and established in Brindisi, Italy.
3. In 2006, based on WFP's own needs and at its own cost, the Brindisi model was replicated by creating a Network of Humanitarian Response Depots (HRDs) in Accra (Ghana, Africa), Dubai (United Arab Emirates, Middle East), Subang (Malaysia, South-East Asia) and Panama City, (Panama, Latin America). In addition, one new hub was being set up in Las Palmas (Spain).
4. United Nations Humanitarian Response Depot (UNHRD) is a preparedness tool that supports the strategic stockpiling efforts of United Nations, international, governmental and non-governmental organizations. The network holds strategic stock reserves of emergency relief goods such as medical kits, shelter items, IT equipment and operations support assets to support relief organizations to respond to emergencies.
5. The network was also set up to facilitate WFP's capacity to respond to multiple large-scale emergencies at any given time and to promote inter-agency and inter-organizational co-operation. WFP is manager and one of the users¹ of UNHRD.
6. The mandate of the UNHRD network is to assist the population living in countries affected by natural disasters or complex emergencies through a pre-positioning of relief and survival items and their rapid demobilization to the affected countries.
7. In accordance with its mandate, UNHRD offers certain common services, which include standard² and specific³ services to its users. Its accounting activities are carried out through a Special Account.⁴
8. UNHRD is headed by a Network Coordinator (who is accorded the status of Country Director in a Country Office), stationed at WFP Headquarters (HQ), Rome. The Network Coordinator reports to the Director of Logistics Division (OSL), WFP. Each hub

¹ UNHRD has 'authorised users', which include humanitarian UN and non-UN organisations, humanitarian agencies, governmental and non-governmental organisations, who have signed a Technical Agreement (TA) with WFP to use the UNHRD network. Other humanitarian organisations/entities wishing to use UNHRD facilities and specific services (at cost) may request services on an ad hoc basis.

² Standard services are provided at no cost to the authorized users and include warehousing and storage, inspection as well as handling of relief items pre-positioned in any of the hubs of the network.

³ Specific Services are those additional services that UNHRD is able to provide to its users, upon request and on the basis of full cost recovery, i.e. the cost of the service plus a management recovery fee. These include procurement of non-food items (NFIs) and services, transport of NFIs, technical missions to the field, insurance, stock disposal and any other service requiring financial commitment by WFP.

⁴ A Special Account was created for UNHRD for managing its financial activities vide Executive Director's Circular ED2002/003 issued on 2 April 2002.

is headed by a hub manager. The hub manager of Brindisi also acts as Deputy Network Coordinator of the Support Office at Brindisi, where units handling finance, administration and procurement functions, as also some human resources (HR) and travel support, are based.

Audit Objectives

9. The primary objective of the Performance Audit was to seek an assurance that the UNHRD network was fit for its purpose and the stated objectives of the facility of strengthening the capacity and response to emergencies and promoting inter-agency co-operation was achieved. The detailed objectives were to assess whether:
- institutional framework for emergency response was functioning effectively and was supported with adequate operational and financial planning;
 - financing model was self-sustaining and able to meet the cost of the operations;
 - administrative and accounting procedures were adhered to;
 - stock management was effective and efficient and followed best practices;
 - warehouse management system, including storing, handling and inspection of relief items, ensured supply chain efficiency and was based on a robust IT system;
 - technical agreements with partners were in place and adhered to;
 - procurement of non-food items and transporting operations was done based on competitive tendering and in a fair and transparent manner;
 - staffing patterns were commensurate with effective manpower management and efficiency of operations; and
 - corporate guidance and oversight mechanisms were in place along with a dynamic feedback mechanism.

Audit Criteria

10. The following sources of audit criteria were used to evaluate the performance of the entity:
- Standard Operating Procedures;
 - Technical and other agreements;
 - WFP manuals of procurement of goods and services and transport; and
 - Applicable rules and regulations, which include the various Executive Director Circulars.

Audit Scope and Methodology

11. Our audit was conducted from 10 September 2013 to 9 October 2013 and included examination of records at Dubai and Brindisi (both of hub and Support Office) and Headquarters (HQ) Rome. The period covered for Performance Audit was from January 2011 to July 2013. However, for the purpose of analysis, some facts and figures

before 2011 were also referred to. Similarly, data of August 2013 and subsequent months were also used, wherever real time data as of July 2013 was not available.

12. The audit methodology included holding of entry conferences at Dubai and Brindisi hubs on 10 September 2013 and 20 September 2013 respectively. Evidence gathering was done through scrutiny and test-check of records at both hubs; using to a large extent sampling techniques. We issued questionnaires, audit queries and observations and management responses were considered at each stage. Joint inspections of warehouses and other facilities, meetings and interviews were held at both hubs. Feedback from users was also sought through a questionnaire. Exit meets were held in Dubai and Brindisi on 18 September 2013 and 4 October 2013 respectively. Finally, the issues were presented at the exit conference to the management of UNHRD and WFP in HQ, Rome, on 8 October 2013.

Acknowledgement

We thank UNHRD and WFP HQ management for the cooperation and assistance rendered to us at all stages of audit.

AUDIT FINDINGS

13. UNHRD is a unique concept where all humanitarian agencies are strategically placed under an umbrella through which they interact as partners or users. As of 2013, UNHRD has 59 authorised users/partners, to whom it provides free standard services. Its network of hubs located at different geographical areas gives it a cutting edge. Moreover, there is a system in existence whereby loans and borrowings can take place among the partners. We are of the opinion that UNHRD needs to take advantage of its critical position and strengthen its functioning, along the areas suggested in the following paragraphs.

Institutional Framework

Addressing of emergency

14. UNHRD is an emergency preparedness and response mechanism, which supports humanitarian organizations. We noted that UNHRD did not have a mandate to determine the state of emergency nor did it have control over the time or nature of response. The organizations who are the users/partners determine the necessity to intervene based on their own respective mandate and programmatic approach. Thus, the prerogative of humanitarian assistance and emergency response lies with the users and UNHRD's role is not proactive but a reactive one, as it supports these humanitarian organizations. However, in view of its unique position of being an inter-agency emergency preparedness and response facility, it can also be a platform for information sharing for timely and more effective response to emergencies.

Recommendation 1(a): *In order to be 'fit for purpose', UNHRD may adopt a more proactive strategy in addressing emergencies through advocacy with both existing and potential users/partners emphasizing the need for response, as well as indicating the time and nature of response, based on past lessons learnt.*

Data on emergency response

15. We noted that UNHRD did not have a system based reporting functionality for assessing hub and year-wise emergency operations facilitated since inception. UNHRD stated that in 2011, an internal report had attempted to gather all information and historical data was available, despite challenges in gathering consistent figures with different systems (WINGS) and funding mechanisms (Special Account and Special Operations). Specific analysis was also performed regularly. The said report/analysis of data was however, not made available to audit. We understand that WFP's initiative of Emergency Preparedness and Response Enhancement Programme (PREP)⁵ had in 2011 prepared a Lessons Learnt database, including that for UNHRD.
16. We would encourage UNHRD to have a systematic tool in place to have automated, real time analysis of various parameters of performance monitoring. This would also facilitate a cost-benefit analysis of the quality of services rendered by UNHRD to all its stakeholders and partners.
17. UNHRD agreed that at present its analysis was manual and random and there was a need for strengthening its reporting functionalities. It highlighted the various ways explored of improving it viz. implementation of the profitability analysis module of SAP, creation of a Business Objects/Business Warehouse universe, development of a comprehensive, bespoke reporting tool, etc.

Recommendation 1(b): *UNHRD needs to have a system-based reporting functionality to capture in real time, the operational support it renders to various emergencies, for assessing its performance and serving as a Management Information System for a cost-benefit analysis of the quality of its services. This would also facilitate more donor visibility and sensitization of its role to the various stakeholders.*

Broadening of donor base

18. The revenues of UNHRD mainly comprised contributions (monetary and in-kind) from donors, and Management Recovery Cost (MRC)⁶ against rendering specific services requested by the users and partners. Unlike the Country Offices/Regional Bureaux/HQ of WFP, the UNHRD was not funded by Programme Support and Administrative (PSA) budget.

⁵ PREP is a three-year WFP initiative (from 2011) that aims to institutionalise Emergency Preparedness and Response at the heart of all WFP work and to put in place corporately a New Response Model.

⁶ MRC is the cost of service charged by the hub against extending specific service. With effect from 1 June 2011, the rate was increased from 4.5 per cent to 7 per cent and this is loaded on the total Direct Operational Costs (i.e. cost of commodities, cost of shipment which may be a combination of road, air and ocean freight.) and a safety margin of 5 per cent.

19. We noted that donor contributions (combining monetary and in-kind) formed a major part of its total revenue i.e. USD 9.19 million in 2011 and USD 10.65 million in 2012. However, the majority of contributions from the donors (40 *per cent* in 2011 and 62 *per cent* in 2012) were for specific purposes and not intended for UNHRD as a whole. Broadening of the donor base is of paramount importance for an entity largely dependent on these resources for the achievement of its objectives. We recognize that UNHRD has been involved in attendance and stands at fairs and humanitarian conferences, arranging meetings with donors, arranging donor visits to UNHRD facilities, visits to donor capitals, publishing of brochures and newsletters and initiating funding proposals to increase the donor base. Due to its efforts, the numbers of donors had increased from 14 in 2011 to 17 in 2013 and total donor contributions increased from USD 4.56 million in 2011, to USD 6.03 million in 2012, and USD 6.24 million in 2013 (as of 3 September 2013). Further, the numbers of users also increased from 41 in 2011 to 59 in 2013. While we appreciate the efforts of UNHRD in this area, we would encourage greater emphasis on advocacy on the part of UNHRD, particularly to have conditionality free funding open to the entire network. UNHRD agreed that, as a way forward, a more aggressive fund-raising strategy was required, particularly for condition-free contributions and it had begun working towards that.

Recommendation 2(a): UNHRD should continue its current efforts of fund raising and engaging with donors for non-specific funding.

Sources of funding

20. As noted above, MRC was another component of the UNHRD Revenue. In 2011, MRC was USD 1.24 million (i.e. 5 *per cent* of ‘Other Revenue’⁷) and in 2012, it was USD 1.28 million (i.e. 6 *per cent* of ‘Other Revenue’). However, the revenues on account of MRC could only be generated when any internal⁸ or external⁹ customers requested for specific services. Thus, UNHRD needed to identify other sources of revenue (like increased use of UNHRD training facilities and also performing training) of a more assured nature and have in place a long-term development plan, so that it continued to be economically and financially strong and viable in the long run.

21. UNHRD stated that it clearly recognized the fact that a single source of revenue, and only one main area of activity would make it difficult to keep afloat in the long run. As such, it actively sought ways to diversify its business portfolio, income and access to funding, including raising awareness among donors, partners and WFP alike about the need for all partners to contribute to the sustainability of the network through various means.

⁷ In 2011, Other Revenue was USD 24.8 million and in 2012, USD 21.3 million. In addition to MRC, it comprised Direct Operational Costs, i.e. gross sales realised.

⁸ WFP Country and Regional Offices, units like the Fast Information Technology and Telecommunications Emergency Support Team (FITTEST), the Global Vehicle Leasing Programme (GVLP), etc.

⁹ UN Agencies, governmental and non-governmental organisations included the World Health Organization (WHO) and the United Nations Children’s Fund (UNICEF), etc. while partners included Ministry of Foreign Affairs (MoFA), Italy; Office for the Coordination of Humanitarian Affairs (OCHA), Norway, World Vision, etc.

Recommendation 2(b): UNHRD needs to explore alternatives for assured sources of funding, based on a long-term development plan.

Planning/Creation of new hubs

22. UNHRD had its oldest hub in Brindisi, Italy. We understand that a new hub of UNHRD was being established in Europe in Las Palmas, Spain. A basic agreement had already been signed by WFP with Spain on 19 July 2012 for the establishment of offices of WFP in Spain. Through this basic agreement, both sides agreed to establish a WFP office in Madrid, a UNHRD Antenna¹⁰ and a Trans-shipment facility¹¹ in Las Palmas de Gran Canaria Island. The administrative agreement was yet to be signed (October 2013). We also noted that UNHRD was yet to formulate a plan about the funding of running costs subsequent to the four-year commitment on the part of the Spanish Government, which, due to the delayed operational start of UNHRD activities, was ending in 2016.
23. UNHRD stated (October 2013) that the hub was a value addition for its supply chain mechanism as replenishment timeline *vis-à-vis* the Ghana and Panama hubs would be reduced by pre-positioning white stocks¹² at Las Palmas. Furthermore, the Spanish Government had offered an initial four-year commitment and UNHRD would review/adjust its plans and long-term financial sustainability strategy according to the results obtained and proven added value.
24. While we note the stated significance of the new hub, we feel that a hub may be established with a view to achieving broader objectives supported with strategic planning for future funding.

Recommendation 3(a): The funding strategy for the Las Palmas hub, beyond the donor-committed period, needs to be worked out.

Recommendation 3(b): New hubs may also be established, if warranted, to achieve broader objectives of the network, supported with strategic planning for future funding.

Financial Management

25. The operations of UNHRD were being managed through a Special Account, established in June 2002 to manage donors' contributions and revenue from services at UNHRD hubs. The financial performance of UNHRD was embedded in the annual accounts of WFP. However, in the current scenario, it was difficult to track the (hub-wise financial performance) in the Special Account. As the business volume of the entity was growing, there was a need for having hub-wise budgeting, accounting and reporting of all transactions in the system, for better cost-efficiency and financial performance. We also noted a need for better financial management, along the lines discussed below:

¹⁰ For pre-positioning of Non-Food Relief Items

¹¹ For pre-positioning and trans-shipment of food stocks to America and West African operations

¹² White stocks are supplier's stocks stored within the network premises pursuant to a Long-Term Agreement (LTA) with WFP. They are not marked with any logo/emblem, hence identified as UNHRD white stocks.

Management of Payables (Creditors)

26. UNHRD is mandated to render specific services requested for by the internal and external customers, for which it charged MRC in addition to Direct Operational Costs (DOC)¹³ of the service. In order to execute the specific services, the UNHRD sought advances from WFP HQ to finance the operational costs in each individual case, except for parties who kept advances with UNHRD. Upon getting the reimbursement from the internal customer through book adjustments and payments from external customers (through banking instruments), the advances taken were cleared. We noted substantial amount lying outstanding at each year-end, as per details in Table 1.

Table 1
(USD millions)

Year	Outstanding Amount	Outstanding more than 90 days	Percentage
2011	9.74	1.54	15.81
2012	9.91	4.41	44.50
2013 (up to July)	5.91	2.75	46.53

27. UNHRD stated that as of 31 July 2013, it had about 2.5 months of operations with outstanding advances and this was consistent with business practice. These were reported on a monthly basis, as part of Monthly Minimum Closure Reports (MMCRs) to HQ. For long outstanding advances, UNHRD would work closely with both internal and external customers to ensure that sales cycle was closed and outstanding advances were repaid within the normal UNHRD business cycle.

28. The UNHRD reply has to be viewed in light of the fact that outstanding for more than 90 days at the end of July 2013 was a significant 46 *per cent* of the total outstanding. UNHRD thus needs to clear these payables on priority.

Management of Receivables (Debtors)

29. The total revenue from sales during 2011 and 2012 were USD 24.8 million and USD 21.3 million respectively. We noted that although revenue was recognized as and when the services were rendered (as per Executive Director's Circular EDD2011/008 and in compliance with International Public Sector Accounting Standards (IPSAS)), a considerable amount had been booked as Receivables. This included USD 9.7 million in 2011 (39 *per cent*) and USD 9.9 million in 2012 (46 *per cent*). UNHRD stated that information of Receivables provided was based on outstanding Proforma Invoices (for which budget advance was requested); those contained a safety margin and could be only considered as reference, since actual revenue amount was calculated and recorded upon completion of services. While the exact quantum of Receivables may vary keeping in view UNHRD's reply, there is no doubt that while on the basis of revenue recognition, the

¹³ Direct operational costs represented the direct operating cost of the service and was based on indicative price of the specific service per hub. The safety margin (lowered from 10 *per cent* to 5 *per cent* with effect from June 2011) was calculated on the total of DOC to compensate for possible differences in exchange rates recorded during implementation of the service as well as differences between the estimate and actual DOC. MRC was calculated on top of both DOC and safety margin.

revenue position of UNHRD may appear robust, a considerable amount was yet to be realized.

30. The procedure in this regard was as follows. While the service delivery arrangements were initiated at the request of users, simultaneously a Proforma Invoice was prepared where estimated cost of the specific service together with the MRC was sent to the users for their information. After obtaining the approval from the users/partners as per prescribed procedure, service delivery related operations were completed. A Service Confirmation Form was generated by the concerned hub as proof of service completion and sent to the Support Office for raising the Debit Note indicating the actual expenditure incurred, which was sent to the users for payment. Until the payment was received against the Debit Note, it was treated as an open item. As per UNHRD mandate, payment had to be cleared within 30 days.
31. We noted cases where Debit Notes were issued but payment was not realised.¹⁴ Cumulative figures of outstandings for 2011, 2012 and up to July 2013 are given in Table 2.

Table 2
(USD millions)

Nature of customer	2011	2012	2013 (up to July 2013)
Internal	0.43	0.84	0.31
External	2.31	1.20	1.24

32. An age-analysis of outstanding amount against Debit Notes issued at the completion of FY 2012 further revealed that 21 cases were outstanding for more than 300 days in respect of external customers (Table 3). The position of internal customers was, however, not so alarming. The details are as under:

Table 3

	Outstanding period	Number of cases	Total Amount (USD)
External Customers	More than 1,000 days	2	6,402.52
	More than 500 days but less than 1,000 days	4	63,936.44
	More than 300 days but less than 500 days	15	49,509.41
	More than 100 days but less than 300 days	39	430,062.30
	More than 90 days but less than 100 days	7	183,688.63
	Less than 90 days	32	465,827.92
	TOTAL		99
Internal Customers	More than 365 days	1	522.50
	More than 90 days but less than 365 days	1	186,209.58
	Less than 90 days	11	648,391.21
	TOTAL		13

33. UNHRD stated that regular and structured monitoring procedure of outstanding receivables, for both internal and external customers, was being put in place to ensure that

¹⁴ General Ledger 634000 (external customers) and 634100 (internal customers) were maintained to track the Sundry Debtors to whom Debit Notes were already raised but payment was outstanding.

actual payment was received after issue of Debit Note. Monthly reporting to HQ as part of MMCR would also continue.

Recommendation 4(a): A system needs to be put in place for close monitoring of receivables and timely realization of outstanding dues.

Procedural inefficiencies in generating Service Confirmation Form/raising Debit Note

34. We also noted that, in many cases, service deliveries had been rendered by UNHRD but Service Confirmation Forms were not generated and/or Debit Notes were not raised¹⁵ for long periods, reflecting procedural inefficiencies.
35. Cases beyond six months (as on 31 December 2012), wherein Service Confirmation Form was not generated even after the service delivery was made and consequently Debit Note could not be raised are enumerated below. As can be seen, the delays were more and ranged from 208 to 879 days in the case of internal customers and 223 to 388 days in respect of external customers (Table 4).

Table 4

	Name of the user	Amount (USD)	Age as on 31 December 2012 (in days)
Internal Customers	Country Office (CO), Senegal	973.50	879
	CO, Senegal	43.81	879
	Asia Bureau	118,587.22	293
	Asia Bureau	9,403.61	293
	Asia Bureau	15,750.00	293
	FITTEST	6,352.50	231
	Regional Bureau (RB), Bangkok	316,575.00	222
	RB, Bangkok	22,160.25	222
	CO, Mali	57,352.41	208
	CO, Mali	525.00	208
External Customers	CO, Mali	4,051.49	208
	World Health Organization (WHO)	17,533.92	388
	World Vision International (WVI)	382.00	251
	WHO	4,943.40	223

¹⁵ General Ledger 808000 (for internal customers) and 808100 (external customers) were maintained to track cases where service delivery was completed but either Service Confirmation Form or Debit Note or both were not raised.

36. Likewise, we also observed that UNHRD was not prompt, particularly in respect of internal customers in raising Debit Note despite Service Confirmation Form having been generated. The overall delays for internal and external customers ranged from 189 to 376 days, as can be seen from Table 5 below:

Table 5

	Name of the user	Amount (USD)	Age as on 31 December 2012 (in days)
Internal Customers	CO, Afghanistan	926,150.40	215
	CO, Afghanistan	5,040.00	215
	CO, Afghanistan	65,183.33	215
	FITTEST	4,725.00	208
	CO, Mali	138,600.00	206
	CO, Mali	525.00	206
	CO, Mali	9,738.75	206
External Customers	United Nations Development Programme (UNDP)	30,671.55	376
	UNDP	32,918.55	189

37. The delay was largely corroborated by the users, who expressed their serious concern about the delays in receiving the invoices from UNHRD in their feedback.
38. UNHRD stated that it does review all such outstanding cases. The current centralized signing of Debit Notes had contributed to an erosion or dilution of responsibility. It would thus review its processes and follow-up activities and controls for internal and external customers would be strengthened.

Recommendation 4(b): *The procedural delays in generating Service Confirmation Forms and raising Debit Notes should be reviewed and minimized, with clear lines of accountability, for improving its operations and efficiency of services.*

Reconciliation of Fixed Assets between the Asset Management Database and WINGS II

39. Scrutiny of reconciliation of Assets as per AMD (Asset Management Database) and WINGS II (Asset Management Record) for the month of August 2013 (as reflected in the latest available MMCR before commencement of audit) revealed discrepancies in two operational hubs as per details below:

Table 6

Name of the Hub	Value of Assets as per AMD (USD)	Value of Assets as per WINGS II (USD)
Accra	89,511.99	103,482.29
Subang	212,220.38	173,385.96

40. UNHRD assured reconciliation of assets for the annual accounts; issue of specific guidelines in line with corporate instructions and close follow-up.

Recommendation 4(c): *Fixed Assets reconciliation between Asset Management Database and the WINGS-Asset Management Record needs to be conducted on priority, as also assured by WFP during the Audit of Financial Statements of 2012.*

Warehouse and Inventory Management

41. The warehouses of the hubs were utilised, as part of free standard service by its partners, for housing their items for humanitarian assistance. This was one of the most significant free services provided by UNHRD.
42. We noted that the UNHRD managed state-of-the-art storage facilities, all five of its hubs located in permanent structures. UNHRD had a Warehouse Management System within the WINGS II framework. It had recently in 2012, with donor funding, initiated a barcoding initiative in respect of the two hubs of Dubai and Subang to streamline and optimise its warehousing processes. This entailed inventory mapping, particularly of pallets/large items for better management and control of warehouse stocks.
43. We observed the following areas that needed improvement to enhance warehouse efficiency and inventory management.

Non-proficient use of warehouse space

44. UNHRD SOPs - section 5.1 highlights that UNHRD facilities are not long-term storage sites and that users are responsible for ensuring that their stocks rotate frequently. It further specifies that users will be requested to take back any of their stocks, which have been idle (i.e. not moved) for 24 months. We were intimated that this passage was introduced in the SOPs to solve storage space issues, which started arising with the growing presence of new partners.
45. Accordingly, the warehouses were to be utilized for storage of items, which had fairly steady inflow and outflow. The users/partners were expected to monitor the age of the items owned by them and ensure dispatch and also further utilization so as to avoid their expiry. However, we noted that in both Dubai and Brindisi hubs, certain items remained without movement for up to three years. Some illustrative cases are mentioned in **Annexure I**. From the feedback of the partners, it emerged that hubs were also required to be more alert and responsive in this regard.
46. UNHRD assured that it would take steps with partners to ensure that stocks rotated as frequently as possible; were reconfirmed as current/valid for emergency preparedness and response activities by the organisations that had prepositioned them; and were in line with UNHRD's SOPs. It further stated that its hub managers had been asked to report on effective storage space used by each partner and volume of stocks not rotating for 24 months. Based on the same, it would discuss with its partners on storage space and enforce the SOP section, wherever required.

Recommendation 5(a): *UNHRD may persuade its partners to regularly monitor their respective stocks lying with the hubs and withdraw the overage and outdated items occupying space. Wherever warranted, action as per Standard Operating Procedures needs to be taken.*

Absence of policy in utilizing warehouse space

- 47.** As noted above, the UNHRD partners were utilizing the warehouse spaces, as part of free standard services. No policy was however formulated for allocation of space to various users/partners on the basis of some selected criteria and/or benchmark.
- 48.** It was noticed that as of 31 August 2013, there were 25 users in the Dubai hub and of the total space utilized of 13,514 cubic meters (m³), space allotted to users ranged from 10 m³ to 2,003 m³. We further noted that, out of 15 users and utilized space of 12,680.38 m³ at the Brindisi¹⁶ hub, space allotted to various partners ranged from 40.5 m³ to 3,188.37 m³.
- 49.** UNHRD stated that it would formalize/revise the storage space assigned to partners within their respective Technical Agreements.

Recommendation 5(b): *UNHRD may formulate a policy for allotting space to partners in the hubs on the basis of some criteria or benchmark, as deemed fit.*

Over-age critical Corporate Response Stocks

- 50.** The warehouses maintained certain stocks captioned “Corporate Response Stocks” (CRS) of WFP users, which included critical items for survival of the personnel, deployed for humanitarian work, in the affected zone. As such, updated and latest items were required to be maintained. In the test-checked two hubs, we noted items lying for long, including generators, water tanks, smoke detectors, meals ready to eat, blankets, etc. The age-analysis of the items is given in Table 7.

¹⁶ This included warehouse space in San Vito, which was approximately 10 km from Brindisi. The land and buildings at San Vito were handed over by the Italian Government to UNHRD for construction of warehouses and other administrative activities. The refurbishment expenditure incurred, mainly by the Italian Government was USD 5,633,363.47. Presently, the Brindisi hub had warehouses in two locations but would largely operate in future from San Vito.

Table 7
As on 31 August 2013

	DUBAI	BRINDISI
Age analysis	Total CRS group of items=155	Total CRS group of items=286
0–365 days	63	93
365–730 days	21	12
731–1,000 days	28	08
1,001 and above days	43	173

- 51.** As can be seen from the table, *57 per cent* of items were in high age category of 24 months and above (above 730 days).
- 52.** UNHRD stated that in the current organizational set-up, decision for stock revision, disposal and deployment rests with the stockowner; in this case the CRS, Board of Directors (BOD) in WFP and it had been flagging such items to all stockowners.
- 53.** We understand that one of the concern areas of the CRS, BOD is to define the minimum levels of CRS to be prepositioned at any given time in UNHRD network to respond to WFP corporate requirements, as also emerged in its meetings of March and July 2013.

Recommendation 5(c): *As the Corporate Response Stocks are of strategic significance, UNHRD needs to closely work with WFP for review and appropriate action of these overage Stocks and their replenishment.*

Aviation Service

- 54.** The Dubai Hub had some items stored in their warehouse, which belonged to the Aviation Service (OSLA) since early 2007. These were items which had served in other places and had subsequently been sent to Dubai HRD as the purpose of their initial deployment was completed and accomplished. These included generators of varying capacity, standard kits for helipads, forklifts, etc. and were recorded in the books at zero value. The items were neither used further nor sold out. As the items were bearing “nil” value, action was required to be taken for their disposal or sale or further possible use.
- 55.** UNHRD stated that it had flagged this issue to WFP management and would continue to actively pursue this with the stockowners.

Recommendation 5(d): *UNHRD needs to actively engage with WFP Aviation Service, to initiate action for their items, which were kept in the hub against zero value.*

Destruction of High-Energy Biscuits and other food items

- 56.** The High-Energy Biscuits (HEBs) were purchased as part of WFP's strategy to respond to emergencies through the UNHRD network. Start-up funding was provided by the Italian Government. However, the HEBs were replenished each time there was an outbound shipment of same. The receiving project thereafter provided funds for replenishment of HEBs. Once the replenishment stock entered the hubs, they lost their donor's identity and could be used for any WFP project in future in the event of a request from any CO.
- 57.** We noted that the Dubai hub received 55 metric tons (MT) of HEBs on 8 February 2011, valuing USD 64,350 and having the expiry date of June 2012. While it shipped 27.28 MT to WFP Philippines on 20 December 2011, 12.48 MT was shipped to WFP Comoros on 6 May 2012. The UNHRD coordinator in his communication to ODLR (Operational Risk Management Service, now OSLR) on 24 June 2012, stated that all efforts had been made through WFP HQ, RBs and COs to ensure utilisation of the remaining 15.24 MT food items. Despite this, however, no requirement for the item was projected to UNHRD from anywhere. Therefore, a proposal was mooted to take action for disposal of 15.24 MT, valuing USD 18,562.32, for which an appropriate approval was received. Finally, the stated amount of HEBs was destroyed with the approval of the Dubai Municipality. The destruction took place on 15 July 2013. The cost of disposal was USD 1,700 and it was borne by the hub although the property did not belong to them.
- 58.** Similarly, the Brindisi hub destroyed the following food items (Table 8) in September 2013, at a cost of USD 39,733.77, which was temporarily borne by UNHRD.

Table 8

Items	Quantity (in mt)	Value of the items (USD)
HEBs	89.66	107,328.00
BP-5 (Baby Plumpy food)	9.90	38,928.88
Meals Ready-to-Eat (MREs)	0.44	5,043.33
TOTAL	100.00	151,300.21

- 59.** Thus, total value of HEBs destroyed worked out to USD 125,890 million and cost of destruction thereon was USD 41,433.77, which was borne by UNHRD. The disposal action required accounting adjustments of write off and disclosure in the Books of Accounts, which were assured by UNHRD.
- 60.** The above facts are indicative of pre-positioning of HEBs (having short life of 1.5-2 years), in the UNHRD hubs without determining the actual requirement, based on inputs from the users. Thus, WFP which had the objective of providing food to the hungry poor had to actually resort to destruction of food, causing reputational risk, in addition to cost and effort, as stated above. There was thus an urgent need for WFP to periodically revisit the procurement/pre-positioning policy for HEBs, after taking into consideration the relevant factors.

- 61.** UNHRD stated that it takes note of this important matter and would continue to give it priority. Disposals had been seldom in many years of UNHRD operations and approach of HEB pre-positioning had indeed been re-visited in the past (albeit not frequently) and more recently via WFP's March 2013 decision memo. The decisions *inter alia* included: (i) to sell all UNHRD stocks in good condition, stop replenishment and dispose of all expired HEB stocks in UNHRD locations; (ii) implement a transition strategy to manage HEBs under the Forward Purchase Facility; and (iii) design technical procedures enabling scale-down of legacy HEB stocks.
- 62.** We acknowledge the aforesaid initiative and would recommend close monitoring of the policy and its implementation.

Recommendation 6(a): *WFP needs to periodically revisit the policy of procuring and pre-positioning the High-Energy Biscuits in UNHRD hubs, taking into account their acceptability to the targeted beneficiaries, responses from the country offices, and their current as well as future relevance.*

Recommendation 6(b): *UNHRD hubs also need to continue to be proactive in sensitizing WFP management and all partners for making best use of food items in its hubs, prior to their expiry.*

Procurement

Procurement of Transport Services

A. *Compliance with the Transport Manual*

63. Unlike other WFP offices, the UNHRD was following the Goods and Services Procurement Manual until March 2012 for all contracting activities, including transport and logistics. A decision was taken within UNHRD to follow the Transport Manual (TM) with effect from March 2012. However, in actuality, the TM was adopted by the Dubai and Brindisi hubs only from October 2012 and December 2012, respectively. No reasons were found on record as to why the entity had not been following the WFP's TM previously or why the shift came so late in March 2012. Further, the compelling reason for allowing the old system to continue in Dubai and Brindisi hubs for another six months and nine months respectively, even after a decision to adopt the TM in respect of UNHRD, was not clear. There was a need for other hubs also to shift to the TM, in view of specific benefits as noted below:

- **Segregation of duties** – As per the policies of the WFP TM, the responsibility for contracting transport and logistics services rested with logistics, and required that a Local Transport Committee (LTC) meeting be held to review the contracting process undertaken (from receipt of request to recommendation of award). All LTC members were to be impartial, and they were all to come from functional areas outside of logistics.

- **Reporting to the Committee on Commodities, Transport and Insurance (CCTI) on waivers** – Under Goods and Services (G&S) Procurement rules (i.e. until 08 March 2012), a specific document type was used in the system to identify cases of waiver; the justification for the waiver was kept in the relevant file. Under TM rules, all such instances were enumerated in the quarterly CCTI report submitted to HQ.
- **Evaluation of the contractors** – As per the Goods and Services Procurement Manual, evaluation of contractors was being done in the event of the value of goods and/or service exceeding USD 5,000 in the purchase order (PO). The TM, however did not provide for any such exception and in all cases a performance evaluation form was used for evaluation of service providers, thus manifesting more transparency.

B. Transportation of emergency response stocks

64. As per its SOP, the UNHRD was required to respond within 24/48 hours to emergency requests from partners/users. We noted an instance of a partner of UNHRD sending in a customer request on 23 May 2013 to launch provision of emergency relief goods to hailstorm-affected Zimbabwe. The proposal was to send a maximum of 2,000 blankets (quilted) and maximum 50 rolls tarpaulins. UNHRD HQ on 24 May 2013 sanctioned USD 100,000 as ad hoc amount against emergency funds (Other Direct Operational Costs (ODOC)) for funding the freight cost to undertake the emergency operation over the weekend (25–26 May 2013). On 25 May 2013, the, Dubai hub sent an interim message to the partner that it would cost USD 44,924 to airfreight the items. The Dubai hub invited Request for Quotation (RFQ) from the approved transporters. Offers were received from four Freight Forwarding Agents. During the weekend, members of LTC could not be available. The shipment was done at the end of May 2013. Thus, the claim of UNHRD to respond within 24/48 hours failed in this instant case. UNHRD replied that this was a rare incident, and that it would take measures to improve such processes. We noted that, in their feedback, one of the WFP users of Dubai hub had also commented that only 50 *per cent* of its inbound shipments and 80 *per cent* outbound shipments were processed within 48 hours.

Procurement of Non-Food Items

65. Procurement of Non-Food Items (NFIs) was a significant specific service rendered by UNHRD. The mechanism of Long-Term Agreements (LTAs) with the vendors/suppliers was resorted to wherever the UNHRD network was faced with recurrent procurements of the same NFI, which could not be estimated in advance or for which supply was likely to be staggered. After completion of all technicalities such as inviting Request for Proposal, evaluation of tenders, both technically and financially, and deciding upon the matter of the vendor to whom the contract would be awarded by a Committee, an LTA was signed. The agreement was for the duration of one year, but could be extended by another year subject to certain conditions.
66. In a review of an LTA case of a water transport bladder, we noted that the tender closing date was extended from 10 August 2012 to 31 August 2012 in order to allow the vendors to supply the samples and all the technical evaluation forms were overwritten. It was apparent that some scores were upgraded against the different vendors whereas some scores were downgraded in the evaluation matrix forms. No initials were found authenticating the corrections or indicating the levels or dates when such corrections were made. We also noted that the local procurement and contracting committee met on 14 November 2012, i.e. precisely four months after inviting the RFQ. Finally, the LTA was signed on 19 November 2012. It took four months from the invitation of RFQ to signing of LTA,

which was indicative of the fact that lead time was considerably high. UNHRD assured closer and more effective cooperation of all units within the network in this area with the aim of reducing various timelines.

67. In examination of another case for supply of prefabricated units, we observed that RFQ was issued to six vendors. Valid quotations were received from only two suppliers and one of these suppliers did not submit any sample. Various scores assigned against the technical criteria were overwritten in the evaluation forms and no authentication was found on the forms as to the stages at which the scores were overwritten. UNHRD assured that it would improve transparency in future cases by insisting that evaluators initial and date their handwritten notes, especially when overwriting them.
68. UNHRD also acknowledged that procurement was a challenge to them and there was a need for an internal reorganization of procurement activities and procurement-related training for the staff including for those who took part in one of the committees. Feedback from WFP users also confirmed this to be a weak area, needing improvement.

***Recommendation 7:** There is a need for greater transparency and promptness in the procurement of items. Inadequacies in the number of trained personnel in this field need to be addressed through appropriate capacity building.*

Service Delivery and Supply Chain Management

69. The SOPs for UNHRD were the basic documents through which the entity provided multifarious services. During a test check of records, few cases of divergence in service delivery were noted, as discussed below:

Supply of wiikhalls

70. We noted a case of supply of a consignment of 24 wiikhalls or prefabricated structures, valued at USD 474,981.12, from Brindisi to N'Djamena for use by CO, Chad. A Proforma Invoice for USD 760,081.22 was raised on 01 March 2011 along with the 10 *per cent* safety margin and 4.5 *per cent* MRC over and above the same. After issuing of Goods Receipt Note (GRN), the CO, Chad cancelled the GRN on the grounds of some missing parts. The Brindisi hub suggested that the safety margin of 10 *per cent* could be utilised towards purchase of the missing parts and the whole issue could be resolved without any additional cost to anybody. Accordingly, the additional cost of purchase of the missing parts, at USD 16,000, was added to the Final Debit Note of USD 789,390.14 dated 26 July 2011 and the same were accounted for. The action was not in order as the purpose of safety margin of the Proforma Invoice was to take care of any eventualities arising out of price differences between the quoted price and the actual cost incurred during delivery in respect of cost of commodities, cost of shipment, etc. There was no investigation as to who was responsible for the missing parts.
71. UNHRD stated that although it exceptionally proposed using the safety margin to cover the costs of the missing parts, it was only done with the approval from the internal user, in this case, the Chad CO. The reply indicated that the safety margin amount was used to salvage the issue but without conducting any investigation about the missing parts.

Warehouse construction project

72. We examined another case of proposed warehouse construction by CO, Pakistan, by utilizing unspent donor funding of USD 8.2 million for the United Nations Humanitarian Air Service and extended Terminal Obligation Date (TOD)¹⁷ of 31 March 2012. UNHRD was requested by the CO, in December 2011, to procure and supply a list of items comprising wiikhalls, electric forklifts, reach trucks, etc. Accordingly, UNHRD submitted a comprehensive proposal under one Proforma Invoice for USD 3,826,815.99 on 30 December 2011 and the same was accepted by the CO, Pakistan, with funds committed to UNHRD as per prevalent procedure through a PO inclusive of 7 per cent MRC.
73. We noted that as a confirmation of accomplishing service delivery, Service Confirmation Form was generated and Debit Notes were raised for various items in March 2012, though procurement action for forklifts and reach trucks was initiated in February 2013. However, as per SOP of UNHRD, after-service delivery was accomplished, the Service Confirmation Note was to be generated confirming the service delivery and on the basis of the Service Confirmation Note, the Debit Note was to be raised calculating the actual cost and recovery. The violation of the SOPs in the instant case needed to be looked into.
74. UNHRD stated that it was requested to provide goods to the CO approximately three months before Terminal Disbursement Date (TDD)¹⁸, but unfortunately the end-to-end process could not be concluded before the TDD. Thus, with the TDD approaching, the CO proposed and UNHRD agreed to process the Goods Receipt Note/Logistics Invoice Verification on the CO side and the Service Confirmation Note/Debit Note on UNHRD side. Regular update on project progress was shared with the donors. The reply confirms that data regarding procurement and receipt of material was generated keeping in view the TDD without the actual completion of services.

System for tracking of service delivery

75. The system of sales transactions and service delivery in the Dubai and Brindisi hubs was observed. We noted that there were discrepancies between the total sales figures reflected in the Business Volume Report available on the UNHRD website and the aggregate of the sales data for the hubs for the year 2013. As stated earlier, there was a need to arrive at the correct business volume by a thorough reconciliation between the hubs and especially with the Finance and Support Office in Brindisi. UNHRD replied that the exercise on review of operations was pending on account of current ongoing up-gradation of WINGS II and reconciliation figures would be strengthened in the upcoming months.

Recommendation 8(a): *Adherence to Standard Operating Procedures, in ensuring service delivery, needs to be strengthened.*

Recommendation 8(b): *Envisaged system improvements, in order to facilitate easy tracking of service deliveries and sales reconciliations, needs to be carried out.*

¹⁷ Terminal Obligation Date is the last date by which any POs can be raised.

¹⁸ Terminal Disbursement Date is the last day on which the relevant funds of the contribution can be disbursed.

Human Resource Management

76. UNHRD currently employed 66 personnel in its five operational hubs, its Support Office and in one proposed hub. Further, the office of the UNHRD Network Coordinator along with two staff were deployed in Rome. A scrutiny of the staff deployment pattern at various hubs and the Support Office revealed that: (i) the staff deployment in HRD Dubai was maximum (16) while the same was only five in Panama; (ii) 12 personnel had been deployed in the Support Office which was 20 *per cent* of the total manpower; (iii) the staff under the head “Local Continuing” was only at Brindisi hub (8) and at Brindisi Support Office (6) totalling 14. In other hubs, no staff under this nomenclature had been deployed; and (iv) maximum staff deployed were under the nomenclature “Local Fixed Term” (35). We noted the following:

Staffing Review Exercise not conducted since creation

77. The objectives of a Staffing Review Exercise (SRE) (now Structure and Staffing Review) among others, are: (i) Appropriate manpower planning considering the activities being undertaken in the CO and to be undertaken in future; (ii) Succession plan in case of retirement and attrition; and (iii) Review of the performance and capacity of each staff member. We noted that no SRE was conducted except in Dubai hub in UNHRD in the manner similar to other country offices of WFP (October 2013).

78. The main functions of the hubs are *inter alia*: (i) maintaining a warehouse; (ii) receiving aid materials of non-food nature from the partners, storing them and dispatching them as per instruction of the partners; (iii) procuring certain non-food items and storing them for dispatch; (iv) receiving food material from WFP, storing them for dispatch upon requirement; (v) physical handling of the items with the aid of equipment; (vi) maintaining stocks ledger for each item; and (vii) arranging for physical counts at the end of the year, etc. There was an urgent requirement for undertaking benchmarking activities to determine the right numbers of employees required in a hub, keeping in view their present activities. Otherwise, the possibility of overstaffing or understaffing could not be ruled out.

79. UNHRD stated that a UNHRD-specific functional review had been initiated in January 2013, which consisted of an in-depth analysis of functions and workload of various staff and the benchmarking exercise would be a part of the ongoing functional review analysis. It was further stated that the need to ensure segregation of duties was also highlighted in the draft UNHRD Network Manual, which would be formalized shortly.

Job descriptions not done either generically or specifically

80. In view of the expertise needed and the specific nature of services expected from UNHRD, it was felt that the management should finalize the terms of reference for each position immediately. This would not only facilitate the management to fix the responsibility for each job, but would also simultaneously help each staff member to identify with the duties to be performed and its linkages within the organization. This calls for an immediate identification of, and the utmost necessity for distinguishing the jobs either generically or specifically. There would then be a uniformity of designation according to jobs performed across the hubs.

81. We were intimated that an exercise for identifying the terms of reference for each functional post was ongoing since January 2013 and would be completed by year-end.

Recommendation 9: *Structure and Staffing Review needs to be conducted in all the hubs within a scheduled time frame, job descriptions of all positions need to be formalized immediately, and fixing of criteria to determine the justification for the correct numbers of warehouse personnel in each hub also warrants attention.*

Oversight and Control Mechanism

Instructions of Executive Director

82. The broad activities of UNHRD were governed by WFP Executive Director circulars¹⁹ issued from time to time. The circulars also served as policy instructions/decisions of WFP as to how UNHRD should function. As per the Executive Director circular of 16 May 2011, the Director, ODL (Logistics), the Director, RMB (Budget and Programming), and the Director, ODP (Procurement), were to issue a joint ODL-RMB-ODP Directive providing detailed instructions and guidelines on the handling, accounting and reporting procedures for the UNHRD Network Special Account. It was, however, noticed that no such Joint Directive was issued until September 2013, i.e. even after more than 2 years since the circular came into effect.
83. UNHRD replied (October 2013) that there was delay in issue of the Joint Directive as various WFP units were involved and thus the consultation/verification process took time and it was expected to be finalized shortly.

Recommendation 10: *Joint Directive for handling and reporting procedures for the Special Account needs to be issued on priority.*

Oversight of the Network

84. Director, Logistics Division (OSL), oversees the functioning of UNHRD through various reports. As noted earlier, CCTI has been added to the existing HRD oversight mechanism for transport and logistics since 2013. Cross-functional oversight of UNHRD's processes is also done by the CRS, BOD. The hubs submit certain reports like MMCR to Brindisi Support Office, which are submitted to HQ, as part of corporate reporting. We noted that Dubai hub had devised performance or management oriented reports like Cost Recovery

¹⁹ The activities of UNHRD started from Brindisi, Italy, in the year 2000. A Special Account was created for UNHRD for managing its financial activities vide Executive Director Circular ED2002/003 issued on 2 April 2002. By 2006, WFP decided on setting-up a network of humanitarian response depots in Africa, the Middle East, Latin America and South East Asia, on the same model as the one set up in June 2000 in Brindisi, Italy. A new circular, therefore, was issued on 1 August stating that the accounting of proposed new hubs would also be incorporated in the Special Account for UNHRD already created. The circular was effective from 1 August 2007. A circular was also issued vide ED2007/006 on 4 May 2007 by the Executive Director delegating the power for non-food procurement to the UNHRD. The circular was effective from 13 April 2007.

Report and Key Performance Indicators since April 2013, which were still at ‘design’ stage and once finalized could be considered for replication in other hubs as “*Best Practice*”. We were intimated that individual hubs were encouraged to develop their own monitoring tools and metrics instead of using simple spreadsheets until a common network-wide reporting mechanism was ready, which itself was contingent on corporate IT support.

Recommendation 11: *UNHRD needs to devise the common, network-wide reporting system, within a scheduled time frame, for better reporting standards and useful Management Information System.*

Users’ perception of the performance of UNHRD

85. A questionnaire comprising 21 specific questions was sent to a number of users of UNHRD to assess their perception of the quality of service being provided by the latter. We received responses from 17 users.²⁰ These included three non-governmental organisations (NGOs), three UN agencies and 11 WFP offices and units. The responses sought were in the areas of information-sharing by the UNHRD, deliveries into UNHRD, warehouse activities like storage, handling, replacement, specific services and physical stock count, transportation of goods, timeliness, feedback mechanism, cost of services and overall assessment. The feedback is summarized and appended in **Annexure II**.

86. As can be seen, while the users appreciated the sound concept of UNHRD and it being a good platform, they were particularly concerned about the following issues affecting the efficient performance of services:

- delay/gap in sharing of information;
- gaps in storage requests and storage conditions;
- inadequacies in handling of stocks and replenishment of stocks;
- discrepancies in physical count;
- delays/damaged /partial receipt of goods in transportation;
- delays in invoicing and closing POs;
- gaps between proforma invoice and debit note and expensive services; and
- weaknesses in procurement

²⁰ (1) Handicap International, (2) Norwegian Church Aid (NCA), (3) World Vision, (4) Office of the United Nations High Commissioner for Refugees (UNHCR), (5) United Nations Children’s Fund (UNICEF), (6) World Health Organization (WHO), Geneva, (7) Regional Logistics Officer (RLO), Panama, (8) RLO, Cairo, (9) RLO, Asia, (10) RLO, Dakar, (11) RLO, Nairobi, (12) IT Emergency Coordination Branch (OSTF) / Fast Information Technology and Telecommunications Emergency Support Team (FITTEST), WFP, (13) Global Vehicle Leasing Programme (GVLP), (14) Project Budget and Programming Service (RMBP), (15) WFP CO, Syrian Arab Republic, (16) WFP CO, Myanmar, and (17) WFP CO, Ethiopia.

87. We noted that UNHRD also in May 2013 in Las Palmas had taken feedback from its users and had adopted the approach of ‘Working Together–Responding as One’. To actually abide by this principle, the users’ needs and concerns, as highlighted in **Annexure II**, need to be given utmost priority by UNHRD.

Recommendation 12: UNHRD needs to closely interact with all users and partners to appreciate their concerns and accordingly offer economic and efficient services to them.

Annexure I
List of Items Lying in Hubs

Dubai

Partners	Items	Date on which received	Days involved
UN Agency	Surgical gowns of various sizes –19	30-09-2010	1,066
UN Agency	Other surgical and medical items – 3,061	30-09-2010	1,066
NGO	Lights, bulbs, solar lantern, transceiver –139	30-09-2010	1,066
NGO	Sanitation set, family hygiene kit, shampoo – 25	30-09-2010	1,066
UN Agency	Tamiflu capsule-75 mg-10 capsule strips – 588	07-10-2010	1,059

Brindisi

Partners	Items	Date on which received	Days involved
UN Agency	Inter-agency emergency health kit – 32	15-07-2009 to 06-01-2010	1,333 to1,508
UN Agency	Water filter – 2,100	15-07-2009	1,508
UN Agency	Water tank collapsible 5,000 litres – 18	15-07-2009	1,508
UN Agency	Water tank collapsible 1,000 litres – 69	15-07-2009	1,508
Government	Jackets, winter – 699	15-07-2009	1,508
Government	Luggage trolley – 909	15-07-2009	1,508
UN Agency	Kitchen set – 1,188	13-04-2011	871

Annexure II

Users' Responses on Services Rendered by UNHRD

	S. No.	Questions	Responses
Information-Sharing by UNHRD	1.	How is the information-sharing system of UNHRD? Could the user readily access position of real time stocks on UNHRD websites at all times? If not please give details.	<p>Nine users replied they faced no problem.</p> <ul style="list-style-type: none"> • A WFP office and an NGO stated that they faced problems to access the real time stock list, as updating was not frequent to reflect stocks received in the warehouse. • A UN agency pointed out that the UNHRD website did not contain its reference numbers and they had to seek a monthly stock report as a specific service.
	2.	Please comment if there were any instances when there was a gap in UNHRD sharing logistic-related information such as status of requests, and supply pipeline date, expiration date, batch no, etc.	<p>Many users were not satisfied.</p> <ul style="list-style-type: none"> • Amongst the WFP offices, a user stated that HEBs were sent just before expiry date and those had to be destroyed upon reception; another pointed out that they often needed to ask for updates. • Two UN agencies also pointed out that flow of communication was not smooth or accurate. • An NGO stated that UNHRD did not inform a loaning user when its stocks were replenished, the gaps being mostly in Accra.
Deliveries into UNHRD	3.	Were there any issues on the part of UNHRD to accede to storage requests of users? If yes, what were the reasons given?	<p>The responses from users who used these services were largely positive, except:</p> <ul style="list-style-type: none"> • A UN agency stated that they increased the level of stocks in Panama and in view of the unexpected increase, they had to pay for storage until UNHRD was able to make other accommodation. • An NGO found Panama warehouse to be full and had to pay charges for stocks not intimated in advance.
	4.	Were there any instances of non-acceptances of user's shipment by UNHRD after initially agreeing to the request? Details and reasons for the same may please be given.	<p>There was no negative view on this score from users who used these services.</p>
Warehouse management: Storage	5.	How did the user find the storage conditions in the hubs? Please indicate if there is any scope for improvement to make these as per acceptable standards.	<p>Responses from users, who used these services, were positive except:</p> <ul style="list-style-type: none"> • A WFP user who stated that the storage space of Subang was not optimized and another warehouse was being rented by them. • Another WFP user pointed out the lack of proper lighting and air-conditioning in some warehouses in Dubai, making it difficult to work safely during the Philippines crisis. • Storage conditions in Panama were also found tight by an NGO.
	6.	Were there any deficiencies or damages during storage? Please give instances.	<ul style="list-style-type: none"> • A UN agency cited humidity problem in Panama and an NGO unit mentioned lost items in the warehouse. • A WFP user pointed out that one generator of 1X 50 KVA capacity was dropped while offloading. 100 printer cartridges were missing from stock.
Warehouse management: Handling	7.	How does the user assess the stock handing services of UNHRD? Were these adequate? Please indicate if there is scope for improvement.	<p>All users responded very positively except two WFP units.</p> <p>It was mentioned that entry of GRNs in the system was often delayed due to stock inconsistencies. There seemed no strategy behind how the various items were organized in the warehouse. Full physical count was done only once a year and was not accurate. The warehouse staff had different skill levels and with UNHRD staff rotation policy, every few months the client was handed over to a 'new' staff that varied in skill and efficiency.</p>

	S. No.	Questions	Responses
Warehouse management: Replenishment	8.	What is the experience of the user on replenishment of stock by UNHRD? Was it smooth? If not, please state reasons. Who handled it, UNHRD or User? Why?	<p>Three of the WFP users found problems in:</p> <ul style="list-style-type: none"> • Availability of standard/fast moving items. • Replenishment taking a long time and not immediately cleared. • Adequate notification on stocks exhaustion never provided; thus, resulting in stock shortages. • An NGO was very critical stating that “Replenishment by UNHRD for items loaned to other users was very slow, sometimes taking a year”. Due to this they refused loaning their stock due to uncertainty of replenishment. They were not informed when their stocks were replaced.
	9.	Could loan, sale or exchange of shared stocks with other users take place whenever requested? If not, please specify.	<p>Responses were positive except from two NGOs.</p> <ul style="list-style-type: none"> • One NGO stated that it was difficult to share equipment/tents, as UNHRD had no framework of agreement with tent suppliers. • Another NGO pointed out that due to slow replenishment, they had to temporarily refuse further loans.
Warehouse Management: Specific Services	10.	Was the packaging provided conforming to the request of the user? Please indicate if there is scope for improvement.	<p>Responses were positive except for:</p> <ul style="list-style-type: none"> • An NGO, which stated that palletisation and banding seemed to be always too expensive and occasionally insufficient. • A WFP user suggested that Proforma Invoice should be labeled on every packaging and another suggested development of diversified options for donor visibility.
	11.	Was appropriate action taken to deal with expired or damaged stock at the request of the user? Was it done at the appropriate time with due notification? Who did it, UNHRD or the User?	<ul style="list-style-type: none"> • A UN agency responded that life of 2,500 mosquito nets expired in November 2011, was discovered in December 2012 but no updates were received despite sending an official request in September 2013. • Another UN agency pointed out it would be good to know if UNHRD could implement destruction of expired/damaged stock. • A WFP user wanted better service with more transparency in this regard.
	12.	Has the user faced any problems during changes in releasing authority? If so, please state.	The users responded positively except a WFP user, who pointed out some delays due to UNHRD requisite of having charging code for emergency operations (EMOPs).
Warehouse Management: Physical Stock Count	13.	Whether physical count of stock by UNHRD was conducted to the satisfaction of the user? Please indicate if there is scope for improvement.	All the users were satisfied on the performance except two WFP users found that Annual Stock Count was far from satisfactory and never accurate.
	14.	Were any discrepancies found during physical count of user's stock by UNHRD? How was it addressed?	<ul style="list-style-type: none"> • Discrepancies were found by a UN agency, and an NGO. • Two WFP units also pointed out that discrepancies raised had not been resolved.
Transportation of Goods	15.	How was the performance of UNHRD in arranging transportation of goods? Has the user ever experienced any delays in provision of transport facilities as specific services by UNHRD? When and why?	<ul style="list-style-type: none"> • A UN agency responded that one shipment for Liberia got delayed. They asked to start the shipment in March but it actually started in May and ultimately reached the destination in July. It had to ask for updates. • An NGO reported that there was communication gap between their chosen Transporter and UNHRD, may be due to the transport company, which led to delays. • Various WFP users also found problems on this score. A user stated that they were never informed in advance about pick-ups and drop-offs, thus making it increasingly difficult to plan the pipeline orders and maximize the supply chain within the Workshop (issue addressed recently with UNHRD). • Another CO noted delays in 2012 for the Syria operation. • A CO suggested more could be done on keeping the users informed about the status of shipment and its estimated time of arrival (ETA). A WFP user recommended review of cost-efficient transportation in/out of Brindisi Hub.

	S. No.	Questions	Responses
			<ul style="list-style-type: none"> • Another WFP user stated that the COs receiving an ex-GVLP vehicle shipped by UNHRD should really receive better advice on options available for transport.
Transportation of Goods	16.	Were there instances of deficiencies during transportation such as partial receipts of stocks or stocks received by the user not conforming to specifications? Please enumerate.	<p>The responses were negative except:</p> <ul style="list-style-type: none"> • A UN Agency commented that it happened at times there were no POs indicated in the packing list which made follow up difficult. There were discrepancies in relation to shipment to Burkina Faso, Côte d'Ivoire and Mali. • An NGO pointed out that there were missing cook sets loaned to UNHRD while replenishing. • A WFP User pointed out the loss of parts of mobile storage units.
	17.	Were there instances of receipt of damaged items or items of unacceptable quality by the user? Please specify.	<ul style="list-style-type: none"> • A WFP CO cited one incident where prefabricated offices were stuffed in a container in a way that it was impossible for the country office to unstuff the containers without damaging the cargo. • Another WFP user pointed out that there were multiple instances of damages at CO end, but in most cases the insurance issues were efficiently handled by UNHRD.
Timeliness	18.	What was the average time taken by UNHRD to complete its transactions? Were there any occasions when transactions could not be completed within 24-48 hours? Please enumerate along with impact of the delays.	<p>Problems were expressed by some users:</p> <ul style="list-style-type: none"> • A WFP user stated that 24/48 hours time frame was unrealistic as it only represented the time of dispatch from the warehouse. • Another WFP user stated that delays happened during weekends though UNHRD was emergency oriented. • A WFP unit commented that only 50 per cent of inbound shipments and 80 per cent of outbound shipments were processed within 48 hours from Dubai hub. They also complained about delayed receipt of invoices for shipping costs. • A UN agency stated in a few cases they were not informed about the departure of shipment and updates were not sent automatically. • Another UN agency stated that a delivery request may take one week to ten days. • An NGO stated that shipping time frames were mostly done within 48 hours for air but sea container shipments took time. Debit notes were being received even after year of shipment.
Feedback Mechanism	19.	How does the user assess the feedback/grievance redress mechanism on the part of UNHRD? Please suggest improvement needed, if any.	<p>Some of the users were not aware of any feedback mechanism:</p> <ul style="list-style-type: none"> • A WFP user stated that the UNHRD needed to improve in the area of invoicing, closing POs • A UN agency stated that system of Proforma Invoices and Debit Notes was confusing as months passed by between the delivery of a shipment and the arrival of the related debit note. • An NGO pointed out that not all hubs were uniform in taking feedback. It advocated the need for better feedback to loaning users with regard to replenishment of their stocks and UNHRD to control the cost versus increasing user charges and fees.

	S. No.	Questions	Responses
Cost of Services	20.	Were the services offered by UNHRD commensurate with its costs? If not, please give reasons.	<ul style="list-style-type: none"> • WFP users expressed concerns on the cost of services. One of the users stated that 7 per cent MRC was too expensive. It would be cheaper to order directly from suppliers and/or through LTAs. • A CO stated that the Proforma Invoice was always higher than the invoiced amount. The UNHRD should have its own Profit & Loss Accounts. • Another WFP user stated there were cases when it was neither cost nor time efficient to use UNHRD but it was a corporate decision. • A WFP CO stated that while UNHRD was more expensive than direct procurement, this was offset by immediate availability of goods. • Likewise, NGOs also had concerns on this. An NGO suggested a 5 per cent rate of MRC which would enable them to consider using UNHRD for procurement services too (if UNHRD is able to provide the user with proof of obtaining 3 quotations for audit purposes). • Another NGO found the services to be good but expensive. • An NGO reported that some of the loading/unloading services were very expensive.
Overall Assessment	21.	Please give an overview of your experience with UNHRD and your perception of the strengths and weakness in the systems used by them.	<p>Most of the users were overall satisfied with their experience of working with UNHRD. However, the concerns which came up included:</p> <ul style="list-style-type: none"> • All the 3 NGOs, despite their good experience, commented on the need to improve receipt of invoices, as they had to wait a long time to receive these from UNHRD. • Likewise, a UN agency stated that the reference numbering was quite difficult to follow and at times it was hard to link the Proforma Invoice number with the Debit Note. Often, funding for the service was expired when the Debit Note was received. Another UN agency pointed out cost, storage and organisation of shipments as strengths and financial issues as its weakness. Similarly, a UN agency appreciated very much UNHRD's capacity to adapt to health emergencies and the quality of professional support but found the billing process too long. • A WFP user found it excellent working with UNHRD as one could avoid the competitive bidding/tenders but felt that the CO should be allowed to directly go to the supplier instead of being compelled to buy from UNHRD at a higher cost. • Likewise, another WFP user observed UNHRD to be a strong platform with great concepts but found the procurement and replenishment as the weakest elements of HRD and also receipt of lengthy final invoices. • A WFP user stated UNHRD was effective but not efficient as it was slow in providing information. Fixed cost structure was too high for stock rotation and network would not always be cost efficient. However, there was an added value in UNHRD to work together at regional level that could not be factored in money terms. • Another WFP user was not happy with the quality of service received from UNHRD Dubai, especially in warehouse management. The experience with logistics side was better and service was of good quality. Issue of final costs for shipping invoices needed to improve. • A WFP user pointed out that UNHRD were the logistics experts which made clients use them as 'one stop shop' for all logistics requirements but the "jack-of-all trades" approach of UNHRD made them inefficient and ineffective. The customer services were poor. Procurement actions needed to be left with WFP Procurement specialists.

Acronyms Used in the Document

AMD	Asset Management Database
BOD	Board of Directors
CCTI	Committee on Commodities, Transport and Insurance
CO	Country Office
CRS	Corporate Response Stocks
DOC	Direct Operational Costs
FITTEST	Fast Information Technology and Telecommunications Emergency Support Team
G&S	Goods and Services
GRN	Goods Receipt Note
GVLP	Global Vehicle Leasing Programme
HEB	High-Energy Biscuit
HQ	Headquarters
IT	Information Technology
LTA	Long-Term Agreement
LTC	Local Transport Committee
MMCR	Monthly Minimum Closure Report
MRC	Management Recovery Cost
NFI	Non-Food Item
NGO	Non-Governmental Organization
PO	Purchase Order
RB	Regional Bureau
RFQ	Request for Quotation
RLO	Regional Logistics Officer
SOP	Standard Operating Procedure
SRE	Staffing Review Exercise
TDD	Terminal Disbursement Date
TM	Transport Manual
UNDP	United Nations Development Programme
UNHRD	United Nations Humanitarian Response Depot
UNICEF	United Nations Children's Fund
WHO	World Health Organization
WINGS	WFP Information Network and Global System