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**Executive Board
Second Regular Session**

Rome, 14–17 November 2011

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 5

For consideration



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MANAGEMENT RESPONSE TO THE RECOMMENDATIONS OF THE REPORT OF THE EXTERNAL AUDITOR ON PROCUREMENT OF LANDSIDE TRANSPORT, STORAGE AND HANDLING CONTRACTS



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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 points indicated below, preferably well in advance of the Board's meeting.

Director, ODL* : Mr W. Herbinger tel.: 066513-2547

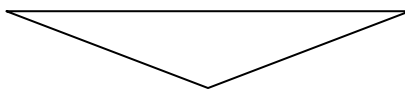
Chief, ODLT** : Mr P. French tel.: 066513-2093

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).

* Logistics Division

** Logistics and Transport Service

DRAFT DECISION*



The Board takes note of “Report of the External Auditor on Procurement of Landside Transport, Storage and Handling Contracts” (WFP/EB.2/2011/5-C) and the management response in WFP/EB.2/2011/5-C/Add.1 and encourages further action on the recommendations, taking into account considerations raised by the Board during its discussion.

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

**MANAGEMENT RESPONSE TO THE RECOMMENDATIONS OF THE REPORT OF THE EXTERNAL AUDITOR
ON PROCUREMENT OF LANDSIDE TRANSPORT, STORAGE AND HANDLING CONTRACTS**

| External Auditor Recommendations | WFP Management Response | Action By | Timeframe |
|---|---|---|----------------------|
| <p>Recommendation 1: The assumptions used in budget estimations, more particularly the landside transport, storage and handling (LTSH) matrix cost, should be reviewed to better reflect the variations in cost over the life cycle of the operation.</p> | <p>Agreed. The Logistics Division (ODL) is revising its tools to enhance and ensure regular monitoring and updates of the LTSH cost matrix on a quarterly rather than semi-annual basis. Additional guidance on LTSH budgeting will be included in the Transport Manual.</p> | <p>Logistics and Transport Service (ODLT)</p> | <p>March 2012</p> |
| <p>Recommendation 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.</p> | <p>Agreed. ODL recently initiated quarterly LTSH management reports analysing LTSH rate variances by project, including variances between utilization of funds and of commodities, and between planned and actual LTSH rates. The report also indicates LTSH matrices due for revision. Projects with the highest variances (about 10 percent of total) are reviewed more carefully: causes of potential surpluses and deficits are addressed and project LTSH budgets closely monitored.</p> | <p>ODLT</p> | <p>Implemented</p> |
| <p>Recommendation 3: Performance rating of existing transporters should be based on relevant, complete data on the achievement of past contractual obligations.</p> | <p>Agreed. A detailed template for monitoring transporter performance was added to the Transport Manual and country office use of the template is tracked. Logistics training programmes will be amended to emphasize use of the template. Key performance indicators are being developed. Reports on transporter performance will be extracted from the new Logistics Execution System on a post-factum basis, once they have been issued.</p> | <p>ODL</p> | <p>June 2012</p> |
| <p>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.</p> | <p>Agreed. Section 3.2.4 of the Transport Manual already provides guidance for the performance evaluation and removal of transporters from the shortlist as appropriate. The Director, ODL will issue a Directive emphasizing that all suppliers on the shortlist must be included in the RFQs and re-emphasizing the importance of removing poorly performing contractors from the shortlist. Compliance with the Directive will be monitored by regional logistics officers and the regional bureaux.</p> | <p>ODLT</p> | <p>December 2011</p> |



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| External Auditor Recommendations | WFP Management Response | Action By | Timeframe |
|--|---|-----------|---------------|
| <p>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.</p> | <p>Partially agreed.</p> <p>Section 3.2.5 of the Transport Manual stipulates that offers not meeting the technical requirements in the RFQ are not considered even if they are financially competitive. The financial rating remains the main criteria for awarding contracts among eligible offers. Justification of recommendations with supporting documentation must be submitted in writing to the Local Transport Committee and subsequently to the authority awarding the contract.</p> <p>The Director, ODL will issue a Directive stressing that when a best offer is not the lowest priced offer, specific analyses, explanations and supporting documentation must be submitted to the authority awarding the contract, with copy to the regional logistics officer.</p> | ODLT | December 2011 |
| <p>Recommendation 6: Criteria for evaluation of bid offers should be mentioned in the RFQ for greater transparency.</p> | <p>Agreed.</p> <p>The Transport Manual will be amended accordingly.</p> | ODLT | March 2012 |
| <p>Recommendation 7: Actionable points in the Compliance Mission Review Reports may be identified and monitored and the report submitted to the Committee on Commodities, Transport and Insurance (CCTI).</p> | <p>Partially agreed.</p> <p>WFP fully agrees with the importance of systematic follow-up of compliance mission recommendations. Monitoring mechanisms are being put in place with regional logistics officers as first-level controls and ODL in Headquarters as the second-level control; these will be included in the Transport Manual. CCTI's mandate is to review transport and insurance contracts.</p> | ODLT | March 2012 |
| <p>Recommendation 8: Efforts must be taken to ensure regular meetings of CCTI.</p> | <p>Agreed.</p> <p>The 2010 backlog of contracts to be reviewed by the CCTI has been cleared. In 2011 three CCTI have been held so far and one is planned for December.</p> | ODL | Implemented |



ACRONYMS USED IN THE DOCUMENT

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|------|---|
| CCTI | Committee on Commodities, Transport and Insurance |
| LTSH | landside transport, storage and handling |
| ODL | Logistics Division |
| RFQ | Request for Quotations |