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## REPORT ON THE WORK OF THE WFP OFFICE OF INSPECTION AND INVESTIGATION (OEDI)

Agenda item 4 c)

August 1995 - July 1996

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## **NOTE TO THE EXECUTIVE BOARD**

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

Pursuant to the decisions taken on the methods of work by the Executive Board at its First Regular Session, the documentation prepared by the Secretariat for the Board has been kept brief and decision-oriented. The meetings of the Executive Board are to be conducted in a business-like manner, with increased dialogue and exchanges between delegations and the Secretariat. Efforts to promote these guiding principles will continue to be pursued by the Secretariat.

The Secretariat therefore invites members of the Board who may have questions of a technical nature with regard to this document, to contact the WFP staff member(s) listed below, preferably well in advance of the Board's meeting. This procedure is designed to facilitate the Board's consideration of the document in plenary.

The WFP staff dealing with this document are:

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Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact the Documents Clerk (tel.: 5228-2641).

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## INTRODUCTION

1. In December 1994 the Executive Director decided to establish an inspection and investigation function within WFP. This is a key element in improving "oversight" within the Programme and is in addition to enhancements in both Internal Audit and the Evaluation Service. The Office of Inspection and Investigation (OEDI) was set up in July 1995 when an experienced Country Director was appointed as Director and a professional investigator was recruited from outside the Programme. A Secretary/Research Assistant was selected and the Office started work in August 1995 with these three staff members. The full budgetary cost for the first year was set at 370,000 dollars.<sup>1</sup>

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## SETTING UP AND LIAISON

2. The first task was to set up the office, establish procedures and to train the staff. As part of the learning process, visits were made to the Office of the Under-Secretary-General for Internal Oversight Services at the United Nations (Mr. Karl Th. Paschke) and to the Internal Audit Offices of FAO, UNICEF, UNDP, and UNFPA. Assistance, advice and training materials were obtained from the Inspectorate Offices of several donor governments during a series of visits.

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## WORK PLAN

3. In consultation with Internal Audit and Executive Managers, OEDI selected areas where WFP appears to be most at risk from fraud and losses. The major contracts let from headquarters are controlled and audited in such a manner that so far no major abnormalities have been detected, although this continues to be high on the priority list. The handling of monetized funds and the letting of contracts in the field have been targeted very carefully by OEDI. The other area where major losses could occur is at the interface between WFP and other operating partners, e.g., host governments, United Nations agencies and NGOs. OEDI has therefore set out to inspect and to obtain information about these major areas of risk. The nine country offices inspected were selected on this basis.

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## INVESTIGATIONS OF FOOD DIVERSION AND LOSSES

4. Eleven reports concerning the diversion or loss of WFP food were investigated by OEDI in its first year. Four of the allegations were made by WFP staff. The remainder came from aid workers and officials. On three occasions OEDI arrived at the site of the alleged diversion within 48 hours of receipt of the allegation. All allegations were carefully investigated.

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<sup>1</sup> All monetary values are expressed in United States dollars, unless otherwise stated.



5. Five were found to be completely false. In these cases, OEDI attempted to find out the background to the false allegation, but was not always successful.
6. Four allegations were found to have some truth, but were greatly exaggerated and involved the sale of food by individual beneficiaries. In all these cases, remedial action was recommended and is being taken in order to reduce the amount being sold. However, some sales on the part of beneficiaries are inevitable.
7. In one case, it was found that the method of contracting for the transport of food, while economical, did not allow sufficient control by WFP. The losses amounted to less than one percent, and changes were recommended and implemented. OEDI made a second visit to this area after six months and found that, as planned, a totally new WFP depot had been constructed; the depot is fully operational. The WFP and contractor staff in the whole region had received extra training.
8. In the last case, which was reported by a WFP staff member, it was found that the project management in a department of the host Government Ministry was selling WFP project food to market traders. The Government assisted the Inspector to recover a large quantity of the food using local police, and made an *ex gratia* payment of 20,000 dollars to the project in compensation for food which had been lost. The whole project was then reorganized and disciplinary action taken against the government employees responsible. All OEDI recommendations have been implemented, the food ration has been adjusted and the project is back on course.

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## JOINT COUNTERPART INVESTIGATIONS

9. Virtually all WFP operations involve partnership with a department of the host government and/or with one or more NGOs. These partnerships are based upon written agreements in light of local conditions. The WFP country offices and Regional Managers are responsible for ensuring that partners meet their obligations. These relationships are based on close cooperation and rely on considerable goodwill. There is a danger that country offices can lose their objectivity and put effort into cooperation at the expense of checking. OEDI has assisted Regional Managers by investigating four cases where counterpart relationships were giving cause for concern. The following examples illustrate the work done:
  10. **Case A.** In a major school feeding project, WFP staff found that some vegetable oil was being sold on the local market. The project and ministry officials had made close and unannounced monitoring by WFP country office staff as difficult as possible. No audit or investigation had been carried out by the Government. An OEDI in-country investigation discovered that, as part of a complicated exchange of commodities, the project had lost money. Cheap commodities had been delivered to the children in place of high-value wheat and oil provided by WFP. OEDI was able to involve the government investigation unit in this matter and, after two visits, a total of 2.2 million dollars was recovered and paid into project funds by a contractor who had been working with the government project manager. The WFP country office now has full monitoring access and the whole project is being reformulated. Disciplinary action has been taken against the government officials. This case is not yet closed, as WFP is insisting that reformulation of the project be accepted in detail before any further shipments are approved.



11. **Case B.** In another country, the National Red Cross is WFP's main operating partner. The Country Director requested help, as he was unable to audit the Red Cross accounts. WFP was paying some two million dollars a year for services provided, but UNHCR, the International Federation of the Red Cross (IFRC), and other organizations were also funding the National Red Cross. The IFRC in Geneva was approached and provided a Special Representative, who travelled with OEDI to the country concerned. UNHCR also cooperated in the inspection. Some irregularities were discovered, such as payments to government officials, overstaffing and some double funding by different donors. The Government immediately agreed in writing to accept an external audit and to stop payments to government officials. By mounting a joint inspection, it was possible to obtain access to the accounts and documents of all the partners: WFP, IFRC, UNHCR, and the National Red Cross. The Country Director could not have achieved this result alone. While the losses in this case were thought to be small, the situation was nevertheless deteriorating. Improved monitoring access and regular external audits should obviate the risk of losses in the future. The first audit is not yet complete, but should provide useful assistance to the WFP Country Director.

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## COUNTRY OFFICE MANAGEMENT

12. The 1994 McKinsey Report, external auditors and various donor reports have highlighted several weaknesses in country office management. Nine country offices were selected for inspection. The inspections were normally planned to take one week each, but several had to be extended. Every WFP office is different and the aim is to identify and solve problems jointly with the Country Director and the Regional Manager. The following key areas were investigated:
13. **Monetized funds.** With hindsight it was possible to examine the cost-effectiveness of monetization in a few individual cases. Some were much more cost-effective than had been expected at the planning stage, but in two cases, monetization had not been so successful. Valuable lessons were learned and passed on to the managers concerned. In many cases, monetization is the only way to obtain the funds necessary to make a food aid project work. However, the attitude and the rules and regulations of the host government are key to its success. The willingness to accept free and open sales and the timing of the monetization are vitally important. The imposition of unexpected port charges or the use of artificial rates of exchange can make all the difference. It is essential for WFP to have details of what charges will be waived in writing before embarking on a monetization shipment.
14. **Banking arrangements.** Internal Audit and the Finance Division have been proactive in improving the control over field bank accounts, both for WFP money and for generated funds, which are owned by project authorities. OEDI carried out detailed checks in the nine country offices inspected. In four of these offices, it was found that the arrangements were unsatisfactory, due to poor financial management by field staff. As a result of the inspections, remedial action was taken immediately to educate the staff and to put the banking arrangements onto a firm footing. Improved guidelines from headquarters and a greater awareness of the risks involved should ensure better management in other country offices, thanks to these inspections.
15. **Food handling.** In general, the handling and storage of food were found to be



satisfactory, but the inspections revealed two significant problem cases and many areas where improvement was possible. Remedial action was taken. Extra training has been carried out where needed and OEDI is following up to ensure compliance with recommendations.

16. ***Human relations.*** The inspections provided an opportunity to resolve conflict and misunderstandings in a number of cases. In particular, it was found that some country offices did not have regular staff meetings and that job specifications and allocation of duties were unclear. The inspectors insisted on having this situation rectified and have subsequently checked compliance.

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## CONFIDENTIAL INFORMATION FACILITY

17. WFP employs a large number of United Nations volunteers, junior professional officers and local staff, who are under the direct supervision of Country Directors or senior managers at headquarters. In the past, these highly motivated, idealistic people had no way of questioning the decisions or actions of their superiors, except through the management chain. It is considered that these junior staff in the field are the best source of information concerning possible fraud or serious losses and every effort is therefore being made to have direct contact with them.
18. OEDI has established a confidential fax and telephone line in order to receive information from all sources. Such information will be investigated. In addition, it has been possible to meet individually with a high proportion of the 600 headquarters staff and with staff in 18 country offices. This "hot line" facility is similar to that set up by the United Nations Office of Internal Oversight and by national Inspector-Generals' offices.
19. A total of 46 reports were received, 18 of which were found to be inaccurate or trivial. In these cases, the feedback to the complainant was useful to the Programme as a way of disseminating knowledge of procedures and regulations.
20. Of the remaining 28 reports, several provided important leads to areas of risk and mismanagement. Three complaints made by staff were found to involve fraud. As a result of OEDI investigations, in one case, 537 dollars were refunded by a contract professional and his contract was terminated. Another staff member was found to have presented false educational qualifications on joining and resigned immediately. In addition, following inspections revealing mismanagement and poor controls, three Country Directors were separated from the Programme.



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## DETERRENCE

21. In addition to important areas such as monetization and food diversion, which have been the main work of OEDI, attention has been paid to ethical problems. The private misuse of official vehicles by Country Directors and field staff has been targeted. Three Country Directors were obliged to pay sums of up to 7,000 dollars for previous private use of office vehicles. At headquarters, it was found that private telephone calls were not being reliably recorded and charged to staff members. A new system, with controls, has now been operating satisfactorily for six months as a result of OEDI recommendations. Other areas, such as the correct recording of leave, and the misuse of office machinery and of the official pouch, have also been checked. There is no evidence of significant misuse, but there is a new awareness of the strict ethical standards expected.

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## CONCLUSIONS

22. In its first year of operation, the OEDI has made nine major field inspections in offices where it perceived that there was a high risk of fraud, loss or mismanagement. In two cases, losses had occurred and a total of 2.25 million dollars was recovered. In two other cases, external auditors have now been hired, but their findings have not yet been received.
23. Two major investigations into food management and commodity losses were undertaken. These revealed that WFP had been criticized incorrectly. However, the investigations were not wasted and resulted in improvements being made and staff being trained.
24. WFP managers at all levels have now accepted that the inspection and investigation function is necessary and will improve accountability, although the amount of fraud and loss discovered so far is relatively small in comparison with the funds handled. This has already promoted a new awareness of risk of fraud. The Executive Director has obliged managers to implement OEDI recommendations within a maximum period of three months. So far, 81 of the 110 recommendations made have been implemented. The year's work has resulted in improvements, notably in the area of monetized funds. The deterrence aspect is very important.

