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# **FINANCIAL AND BUDGETARY MATTERS**

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## **REPORT OF THE OFFICE OF THE INSPECTOR-GENERAL**

**Report on inspection activities  
(August 1996–December 1997)**

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## **NOTE TO THE EXECUTIVE BOARD**

**This document is submitted for information to the Executive Board.**

Pursuant to the decisions taken on the methods of work by the Executive Board at its First Regular Session of 1996, 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 the plenary.

The WFP focal point for this document is:

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Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact the Documentation and Meetings Clerk (tel.: 066513-2641).



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## INTRODUCTION

1. The first report by the Inspector-General (IG) (WFP EB.3/96/4-c) covered the work carried out between August 1995 and July 1996. The Executive Board decided that in future the IG should report biennially, in parallel with the report on WFP's Audited Accounts. Some representatives requested that future reports include more details of lessons learned from inspections, which might be of value to other United Nations organizations as well as to WFP. The Board particularly emphasized the importance of the "deterrent effect" of the Inspector-General's work.
2. This report therefore covers the period from August 1996 to December 1997, when WFP's biennial accounts closed. WFP's first Inspector-General retired at the end of 1997; a new one was appointed in January 1998. A new Inspection Officer has recently been appointed. The annual budget cost of OEDI is 372,000 dollars.<sup>1</sup>

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## WORK GOALS

3. The Office of the Inspector-General was established by the Executive Director in 1995 to minimize fraud, mismanagement and malfeasance in WFP operations worldwide. Based on the direction of the Executive Board and advice from Executive Management, the following broad work goals were set out by the Inspector-General for this 17-month period (August 1996-December 1997).

### Deterrence

4. One of the best ways to deter fraud, malfeasance and mismanagement is swift detection and corrective action. Unfortunately, the experience of fraud detection and prosecution offices worldwide is that fraud can be so complex that even with unlimited manpower, a single case can take years to complete. WFP emergency operations are sometimes short and after even 12 months, the field staff concerned have probably moved or even left the Programme.
5. WFP's Inspector-General must therefore aim to react quickly to even tenuous reports of something going wrong. The first work goal of the Office of the Inspector-General (OEDI) is to respond within one week to any report of a serious problem, if necessary making a field visit to assist line managers in finding an immediate solution. Disciplinary action or administrative measures to release or move staff may then have to be taken to avoid future losses.

### Recoveries

6. Wherever possible OEDI should act quickly to assist managers to recover losses of food or money. Having recovered 2.25 million dollars in the first year of its existence, OEDI was tasked to act quickly where losses were suspected, not only to stop further wastage, but also to recover what had been misappropriated.

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<sup>1</sup> All monetary values are expressed in United States dollars.



## Improved management procedures

7. Where something has gone wrong, it is unusual that a sole individual is entirely responsible. Often there is a weakness in the established administrative procedures of WFP or a gap between the areas of responsibility of different managers. With the major organizational changes being implemented, the Executive Director especially asked the Inspector-General to identify gaps in the overall WFP management and operating systems which may arise as a result of decentralization and managerial change.

## Lessons learned

8. In the first two years of operation OEDI learned much about what can go wrong. In the last six months of 1997, the outgoing IG was asked to pass on the lessons learned to as many Country Directors and line managers as possible.

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## FIELD OFFICE VISITS

9. In conjunction with the Internal Auditors, a risk assessment is carried out regularly. The Inspectors and Auditors plan field visits to WFP offices where the risk of things going wrong is highest. Most inspection visits took place on very short notice in response to a request from the managers concerned, or as a result of allegations coming from other sources, notably WFP junior staff. Fourteen WFP country offices were inspected during this period. In most cases, the problem could be solved and the allegation proved or disproved within a relatively short time frame. However, in two cases (Afghanistan and Nicaragua) investigations lasting several months were needed.

## Misuse of official vehicles and equipment

10. In the previous OEDI report, it was noted that five WFP staff members had been disciplined or obliged to pay back several thousand dollars to WFP for the private use of official vehicles or equipment. In the 14 countries subsequently visited only one minor case of misuse was found. The rules and regulations have been clarified and disseminated. The use and misuse of official vehicles may be a relatively minor aspect of WFP's worldwide operations, but clearly the message has been received by field staff and understood; WFP does not tolerate the misuse of any of its resources. This is one example of the deterrent value of OEDI.

## Afghanistan

11. The country inspection and subsequent investigation into WFP operations in Afghanistan required over 90 staff days of work. During the course of an investigation the country and the individuals concerned are usually not mentioned for diplomatic and legal reasons. In this case, however, investigative journalists visiting Afghanistan published a report "*On efforts to end the theft and corruption that is profiting Afghan war lords to the cost of the hungry*" (Guardian International News, 22 February 1997). As the article reports, the Inspector-General carried out a detailed inspection in Mazar-i-Sharif and other WFP bases in Afghanistan in November/December 1996 and January 1997.
12. In Afghanistan, WFP is operating in the midst of a civil war and in extremely insecure conditions under physical threat. There are three separate, warring Administrations in the regions where WFP operates. WFP's main beneficiary group is the women and children. As no government administration has the capacity to act as a partner for WFP, WFP has had to



rely upon NGOs. The inspection found that some of the local NGOs, with which WFP was operating, were simply “fronts” for business contractors. In a number of cases, WFP road construction and other projects were being undertaken using machinery instead of labour-intensive methods. The WFP food was being sold in the market to pay for the machinery.

13. It was not possible to prove that any WFP staff member had received personal benefit from this abuse. However, the food was often not reaching the intended beneficiaries directly. Some of the “NGOs” and their War Lord protectors were undoubtedly making a profit on the deal.
14. It was found that a number of WFP international short-term contract staff had been in post too long. The integrity and effectiveness of several staff members were considered to be questionable. Seven WFP staff left the programme in 1997, mostly at the end of their short-term contracts. On the other hand, it must be recorded that most of the WFP staff in Afghanistan were found to have been doing exceptional work. These individuals’ contracts were renewed, and some have been promoted.
15. The WFP operation in Afghanistan has now been strengthened with a new Country Director. Most international organizations had to suspend operations in Afghanistan, because of the civil war. As this report is written, the United Nations is taking other measures to curtail United Nations activity in Afghanistan. For WFP it is one of the highest risk areas, and staff have been killed, kidnapped, ambushed and wounded. The threatening atmosphere and the real danger faced affect all WFP national and international staff, particularly the female staff. However, most of the WFP food has been reaching the intended beneficiaries. The risks involved appear justified in view of the perilous state of the poorest people.

### **False travel claims**

16. The second detailed investigation started out as a simple country office inspection. The WFP operation in the country appeared to be satisfactory, but some anomalies were found in the country office’s travel claims. Initially, the person concerned denied wrongdoing. It was eventually necessary to expend more than 100 investigative days tracing records going back over two years in different duty stations to establish the truth. In the end three cases of fraud were proven. The total amount of the fraud was approximately 13,000 dollars. The person concerned was obliged to refund the money and was separated from the Programme.

### **Cash losses**

17. In many countries where WFP operates, it is necessary to pay for goods and services in cash. The cash has to be transported by road and air using couriers who are often staff members on duty travel. The duty station needing cash is usually in a country where there is a civil war or the police and security services are virtually non-existent. Wherever possible WFP uses the national banking system. It is only where the infrastructure has failed that WFP is obliged to operate on a cash basis.
18. WFP has arranged an effective insurance to cover cash-in-transit. Each movement of cash is recorded and a premium paid. Several claims have been paid by the insurers. However, once the cash has reached the WFP office, it is rarely possible to obtain all-risks insurance. In conditions of war and civil strife, it is extremely difficult to define all the risks and where local insurance is unobtainable, it has been found that international insurance is extremely expensive and not cost-effective even where it is obtainable.



19. All known cases of theft or loss of cash were investigated. In three cases WFP staff were found to be negligent and the staff members refunded the cash. In one case the contract was not renewed. In another case the staff member has been billed, and the case is still in process. In other cases, notably where WFP staff were held at gunpoint, no negligence was found and cash could not be recovered. The total loss of cash so far is less than one thousandth of one percent of the cash being handled.
20. The regulations and guidelines have now been revised and republished. WFP has also invested in better safes, with dual control, so that no individual WFP staff member is personally at risk (and responsible) for the only key to a safe containing a large sum of WFP money. The rules concerning cash-in-transit have also been simplified and republished. In particular, there is now a clear definition of which office is responsible for arranging the insurance for each shipment. While safeguarding the cash entrusted to WFP, it is also imperative to minimize the risk to WFP staff handling cash. This will be a major ongoing matter to be inspected regularly.

### **Theft of non-food emergency equipment in Nairobi**

21. A lengthy investigation into a loss of equipment from the supposedly secure WFP Logistics Store in Nairobi did not result in significant recoveries. However, the investigation, which was carried out in cooperation with United Nations security staff, the Kenya police and a representative of the United Nations Office of Internal Oversight Services (OIOS) did apportion blame. More importantly, valuable lessons were learned. Maintaining the security of stores in high-risk countries is a major task for WFP. Country staff spend a great deal of time and effort devising ways to protect the assets entrusted to WFP. It is a highly technical subject, which will not be detailed here.
22. However, the following points may be of interest. If the keys to a storage facility can be copied locally, the store is vulnerable, that is, one good lock is usually better than a multitude of cheap ones. Absent precise written instructions as to who is allowed to open the store, even a 24-hour armed guard does not ensure access control. A sophisticated industrial alarm with electronic recording of event is essential, albeit only with knowledgeable operators and with monitoring by supervisors.

### **Recovery of 1.16 million dollars in cash**

23. The WFP office in Angola was the target of a sophisticated international fraud. International crooks based in Belgium and South Africa, with connections through the diamond trade in Angola, commissioned the theft of documents, headed paper and photocopies of signatures from the WFP office in Luanda. Forged payment vouchers were faxed from Luanda and accepted by a highly reputable International Bank holding the WFP Angola accounts. Two payments were made by the Bank to companies in South Africa, one of 670,000 dollars and the other 490,000 dollars. The WFP office in Angola received a statement from the Bank several days later and discovered the fraud. The Country Director immediately contacted the Inspector-General. The IG contacted the Government authorities in South Africa, who agreed to assist. OEDI briefed lawyers in South Africa and Switzerland within 24 hours by fax. The IG travelled to Switzerland and demonstrated to the Bank that their officials were at fault in accepting a forged voucher from a public fax machine in Angola without checking with WFP.
24. In the name of WFP, High Court orders were obtained in South Africa to temporarily block all the bank accounts of the two companies concerned. Having done this, the IG travelled to South Africa. The principals of the two companies were interviewed by State



Prosecutors and Police in the presence of WFP and much of the money was recovered. Both companies went out of business within three months, because the banks forced them into bankruptcy. The IG then went to Angola, taking police and the government prosecutor from South Africa by WFP plane to meet their counterparts in Angola. This was the first cross-border cooperation between police and state prosecution officials, and was hailed by both governments as a valuable precedent.

25. The final outcome for WFP was that the Bank refunded the money stolen and paid interest on it. The Bank also paid WFP's legal costs in Switzerland and South Africa and refunded to WFP the travel costs incurred by OEDI. WFP was informed that the Bank Director concerned was dismissed and his Managing Director was given early retirement. The WFP accountant in Angola was replaced. WFP learned some valuable lessons. Finance Division (FS) directives based on the OEDI findings should preclude the possibility of a similar fraud in the future. As far as is known, there has never been a successful fraud of this nature against WFP, but there have been attempts.

## ALLEGATIONS AGAINST WFP

26. WFP staff and indeed WFP itself, is often the target for allegations of mismanagement or fraud. The Inspector-General operates a fax "hotline" and is the focal point to receive and investigate these allegations, which are always taken seriously. Unsubstantiated rumour and anonymous letters are difficult to handle, but are an unpleasant fact of life. Approximately 20 percent of the time and effort of OEDI has been devoted to investigating allegations. Some of the stories and most of the anonymous letters received appeared to be based more on personal animosity than fact.
27. In three of the 65 cases investigated, the information passed to the IG was found to have a basis of fact. After investigation, disciplinary action was taken by WFP. For example, an otherwise able staff member in a difficult duty station was found to be operating a private communications business, using diplomatic status to import the necessary equipment. He was separated from the Programme.
28. In the other cases, however, the allegations were found to be without merit. For example, serious allegations against a Country Director required detailed, on-site investigation. They were found to be totally fabricated by a person who had been employed by WFP, but whose performance was unsatisfactory and who was not selected by the local appointments committee for a longer contract at the end of the probationary period. The person concerned had written an anonymous letter to WFP headquarters.

### Within WFP headquarters

29. Many of the problems arising in country offices are not unique to one office. Major changes have been made in the structure of WFP headquarters in order to improve field operations. The internal and external auditors have made many constructive recommendations, which are being implemented. The practical problem is that as improvements are made, and as staff change over, gaps do occur. By making regular informal visits to key operational areas at headquarters, it has been possible for the Inspector to note and warn of potential problems. Again, it has often been very junior staff who have shown OEDI where a gap or problem has arisen. By acting as a trouble-shooter, the Inspector-General has been able to advise managers in good time so that corrective



action could be taken. The credit for solving the problem, therefore, goes to the managers concerned and it would be invidious to record detailed cases in this paper.

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## LESSONS LEARNED

30. A series of training management seminars and cluster meetings were held in 1997. The outgoing Inspector-General attended three of them, usually combining the meeting with an inspection of the associated WFP office. Briefing notes were prepared, which have been issued to Country Directors and managers and used at other meetings. Although there were many detailed recommendations concerning such matters as the handling of cash, the security of keys and the monitoring of beneficiaries, two specific recommendations were made to each Country Director and manager.
31. The first point was to emphasize that the mission of Country Directors is to deliver food to the hungry poor. Obstacles must be overcome. If it is not possible to achieve this, while following all the guidelines and regulations of WFP, the CD must decide in favour of the beneficiaries. The CD must however record in writing the details of how and why the regulations were not followed. This record of the CD's management decision must be kept on file and copied to the supervisor concerned and to FS if appropriate.
32. The second is to reduce bureaucracy. It was astonishing to find that, while the Executive Director was reducing bureaucracy at the highest level, junior managers were busy inventing new complex systems.
33. The country office which was most criticized for the lack of beneficiary contact monitoring was also the one which had established the most complex bureaucratic rules and regulations. Daily, weekly and monthly proforma had to be completed and sent to the country office by each outstation. The country office staff were therefore too overworked to visit the outstations and the outposted WFP staff spent too much time in the office writing, and not enough time with the beneficiaries.

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## LIAISON WITH OTHER AGENCIES

34. Although WFP was the first United Nations organization to establish an Inspector-General, others are now following suit. It is important to ensure that all parts of the United Nations system adopt a similar firm approach to malfeasance and fraud. WFP attended an excellent training seminar in 1997 organized by UNDP in conjunction with the United Nations office of Internal Oversight Services (OIOS). The WFP Inspector-General also met auditors and inspectors from the Joint Inspection Unit (JIU) and other Geneva-based agencies. OEDI has also had useful discussions with Board Members and Government Representatives from numerous countries. The IG had discussions with the Under-Secretary-General, OIOS and maintained close liaison with OIOS, in general.

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## CONCLUSION

35. The Office of the Inspector-General is now firmly established in WFP. Managers at all levels at headquarters and in the field know that their work and behaviour will be monitored and inspected. Many field offices have expressed support for the work that has been carried





out by the IG. The long-established functions of Audit and Evaluation will continue to be the main detailed oversight mechanisms. There is no plan to increase the size of the Office of the Inspector-General. Inspection and investigation may be new to the United Nations system, but they have always been an essential part of national government administrations.

36. By acting quickly and decisively, the Inspector-General has been able to recover over 3.6 million dollars in the two and a half years since the function was established. While deterrence is important, the Inspector General cannot operate alone. The Executive Director and Executive Staff have provided the leadership necessary to implement the change from a top-down mainly development programme to an accountable, delegated organization capable of reacting quickly. Country offices are now empowered to take independent executive action. The back-up of inspection and investigation is an essential part of these changes. With the experience gained from many different offices, the Inspector has passed on ideas and lessons learned in one country for the benefit of all.

