

Gaza In-depth Fiduciary Review

May 2018

Objective and scope of the review

At the beginning of 2018, the World Bank's Palestine portfolio comprised of 22 projects with a total commitment of US \$236 million, of which US \$116 million represent allocations to Gaza. In addition, there are three pipeline projects amounting to US \$27.5 million, of which US \$5.5 million are allocated for activities in Gaza. On overall fiduciary risk, five projects have been rated "Moderate", twelve "Substantial" and five "High".

For the project implementation in Gaza, the World Bank engages with the Palestinian Authority (PA) institutions in the West Bank, which have corresponding implementing units in Gaza. This is the practice in sectors such as water and sanitation, energy, and urban development. Projects in the health and social development are implemented by the Project Implementing Units (PIUs) in the PA institutions based in the West Bank, with no corresponding implementing units in Gaza. The exception is the Finance for Jobs project, which is implemented by a private sector entity that directly implements in Gaza. Financial management arrangements for projects implemented in Gaza largely follow country systems set by the Ministry of Finance and Planning (MoFP). The MOFP's accounting information system, known as BISAN, generates budget and payment information at project/trust fund level only. The implementing entities maintain a parallel accounting information system aligned with the project needs and detailed activities and subcomponents. Reconciliation between the two is conducted on a monthly basis. Risk analysis and related mitigation measures are detailed and documented in the Project Appraisal Document (PAD) of each project.

Procurement for the Investment Project Financing (IPF) portfolio in Palestine is carried out in accordance with: (i) the World Bank Procurement and Consultants Guidelines, issued in January 2011 and revised in July 2014 (17 Projects); or (ii) the World Bank Procurement Regulations for IPF Borrowers, July 2016 (4 Projects). LGSIP, the only P4R in Palestine, is implemented in accordance with the 2014 Public Procurement Law (PPL), which entered in effect on July 1, 2016. Most of the implementing agencies, including PIUs, have been involved in implementing Bank-financed projects for several years and have developed good institutional knowledge and capacity in Bank procurement. Almost all projects have on board qualified procurement specialists with adequate knowledge and experience in Bank procurement, yet procurement is often challenged by internal bureaucratic decision-making processes. For large infrastructure projects, or projects which involve complex or specialized procurement, the existing capacity is supplemented by additional consultants who would assist with the preparation of engineering designs/technical specifications as well as with the preparation of the bidding documents and support to the implementing agency through bid evaluation and contract negotiations.

An ex-post procurement review of the Gaza Supply & Sewage Systems Improvement Project in November 2016 found instances of misprocurement and misrepresentation. A follow-up Integrated Fiduciary Review of the project in April 2017 revealed fraud, corruption and unclear accountabilities. Key shortcomings revealed by the reviews include: (i) deviations in the scope and location of works executed under several contracts from those described in the procurement plan approved by the Bank, (ii) discrepancies in terms of location, quality and quantity, between the items of works/goods physically in place and those included in contract documentation, (iii) payments to third parties for purposes unrelated to the awarded contracts, (iv) unclear line of accountability for project entities and weaknesses in the technical audit component of external audits, and (iv) a loose sector coordination mechanism, which creates significant risks of double-dipping. Some of these identified issues were not detected by the regular Bank supervision missions

because of limited access to Gaza (on account of security constraints) and high fragmentation of donor funding.

Based on the above, the Bank identified the need for a special purpose in-depth fiduciary review of select Gaza projects to provide assurance that the Bank funds are being spent for intended purposes, with due regard to economy and efficiency. In addition, the Bank is providing support to the Palestinian Water Authority (PWA) in its effort to define strategic investment priorities in water and wastewater in Gaza Strip until 2025. Through this exercise, the PWA will work with different stakeholders to produce a unified investment plan for both utility management and bulk water supply, which will allow it to systematically tackle challenges and increase donor alignment in practical and pragmatic manner.

The primary objectives of the in-depth fiduciary review, described in this report, were: (1) to identify potential or actual risks to the development results posed by inadequacies in the fiduciary arrangements; (2) to identify actions to reduce, mitigate or manage these risks; (3) to propose actions which would strengthen country financial management and procurement systems; and (4) to identify opportunities to embed “smart fiduciary” principles and practices in situations of high or substantial inherent risk.

The scope of the review included 6 projects:

1. P116199 – Gaza Electricity Network Rehabilitation
2. P119307 - Cash Transfer Project
3. P121648 – Gaza Solid Waste Management
4. P074595 - North Gaza Emergency Sewerage Treatment
5. P127163 - Second Municipal Development Project
6. P150494 - Gaza Sustainable Water Supply Program

The projects selection prioritized those fully implemented in Gaza and also incorporated a couple of projects that have part of their activities carried out or delivered in Gaza. The work started by a desk review of the pertinent project documents ahead of the field visits. The field review focused on the identified risk areas including the inventory controls and physical existence of supplies and materials in warehouses and selected project sites. Contracts were selected based on size, complexity and representative activities. The sample covered by the financial management review amounted to USD 7.5 million. The sample covered different expenditure categories (civil works, goods, consultancy services and operational costs). In certain cases, the focus was on the adopted internal controls rather than the payments value. For the procurement post reviews, the sample size per project was based on the procurement risk rating (20% for high risk, 15% for substantial, 10% for moderate and 5% for low). The total value of contracts subjected to the procurement review amounted to US\$4.04 million. In addition to these, contracts in the amount of US\$ 92.9 million (including amendments) were subject to the Bank’s prior review. Some of the grants financing the above projects have closed in December 2017, while others will close in 2018 or 2019. Therefore, additional attention was given to ensure that: disbursement was made only for goods and services delivered by the closing dates, the designated account was properly reconciled, final withdrawal applications were timely submitted, and undisbursed funds were refunded to the Bank.

Executive Summary

The overall review concluded that fiduciary arrangements were reasonable despite some instances of noted control weaknesses. The project records were complete and supporting documentation was readily available. Tracing samples of supplied goods and material to warehouses confirmed physical existence. However, further improvements are needed in the areas of cost estimates, bidding documents, inventory controls, and payment processing as discussed below.

Shortcomings at the early stages of the procurement process appear during contract implementation. Poor quality of the bidding documents (particularly incomplete technical designs, poorly defined scope of work and technical specifications, or unrealistic completion/delivery periods) and failure to complete pre-requisite actions (e.g. land acquisition) prior to contract award has reflected negatively on contract implementation and resulted in cost and time overruns for large infrastructure and consultancy contracts.

Wide variations between the awarded contract amounts and the initial cost estimates were noted in a few instances. Unrealistic cost estimates could result in delays especially when they result in the cancelation of the procurement process and rebidding or would require budget adjustment. Investing in the preparation of realistic cost estimates and the creation of databases of unit prices that are periodically updated are important mitigation measures.

Contracts with vendors had multiple amendments to extend the completion dates. In some cases, this was attributed to factors beyond project management control, mainly the time required for the clearances of imported items and the challenging logistics for moving goods from the West Bank to Gaza projects sites. On the other hand, there are cases which signal unrealistic implementation periods, delays in site handover or deficient contract management and supervision practices.

Contract management issues were noted in some cases. Contract amendments have taken place a few months after the lapsing of the original contract duration or after the lapsing of the latest amendment.

The review of the inventory system at GEDCO warehouse identified the need for strengthened controls. The serial numbers of modems of the Supervisory Control And Data Acquisition (SCADA) system (used by the electricity control center) was not identified in the receiving and dispatching documents in GEDCO warehouse, which results in inventory items not uniquely identified. Although the SCADA control center could account for the total number of modems dispatched to the center, the inability to track the dispatching of items by serial number can result in losing inventory items and failure to identify the accountable department or staff.

The PIU at PENRA did not consistently keep track of inventory at warehouses up to installation. Almost 85% of the funding of the Electricity Network Rehabilitation Project was used to buy goods. Although the receiving company (GEDCO) is the ultimate recipient (beneficiary) of the received goods, the PIU should continue to exercise a fiduciary responsibility to track and verify the reliability of inventory accounting and controls.

Payments required excessive layers of review and approval to be completed. In Gaza, the reviewers included the PIU head, the MoFP controller, and the respective deputy minister. In Ramallah, the payment package is reviewed and signed off again by MoFP financial controller, the finance director of the authority and the Minister. Slow payment processing beyond the allowable time in the contract can result in financial penalties claimed by suppliers and contractors. Payment delays could also affect the contractors' ability to complete the work.

For the overall portfolio, withdrawal applications (WAs) are exclusively signed by the Minister of Finance and the Accountant General. While this ensures consolidated control over the budget, the exclusive signing authority vested with only two signatories who have to jointly sign, and typically in a specific order, increase the risks of delayed WAs sign off and in turn affects the overall portfolio disbursements.

The practice of securing ministerial endorsement of individual new contracts negatively affects implementation time and adds to the associated transaction costs. At PERNA, the review team also

noted that the Minister of Finance certifies the decision of the selection committee before final contract awarding. The perceived or expected processing delays increase the risk to the suppliers' cash flow management, which is likely to be reflected in their bidding quotations for contracts.

Foreign exchange losses were reported in the NGEST Project. As a matter of policy, exchange losses are not considered as eligible expenditure that can be funded from the grants funds. The nature of the reported exchange difference needs to be further clarified by PWA to the Bank before end of June 2018. The Bank FM Specialist will then verify accuracy, accounting treatment, and potential effect on expenditure eligibility.

Given the fiduciary oversight risks detailed in the project reviews presented below, the use of smart technology in the areas of remote sensing, mobile payments and using social media for citizen feedback can be quite useful. This would help address the risks associated with high value items in the electricity sector, assets used by municipalities, and cash transfers reaching the right beneficiaries.

Recommendations

A set of recommendations is listed below to address the fiduciary risks identified in the bidding issues, contract management, implementation efficiency, control and oversight.

1. Quality bidding documents and completion of pre-requisite actions

Ensuring the preparation of quality bidding documents (verified technical designs and well-defined scope of work and technical specifications, realistic completion/delivery periods) and timely completion of pre-requisite actions (e.g. land acquisition) would prevent time and cost overruns during contract implementation.

2. Realistic and updated cost estimates:

Investing in the preparation of realistic cost estimates and the creation of databases of unit prices that are periodically updated should help avoid delays caused by cancellations and rebidding.

3. Streamlining contract awarding:

Multiple reviews and endorsements take place before contract awarding including internal reviews within line ministries, sign off by the respective minister, and further sign off by the Minister of Finance in certain cases (observed in contracts at PENRA). Streamlining these arrangements can expedite the awarding process and reduce the associated transaction costs. In particular, eliminating the additional sign off by Minister of Finance of awards recommended by 'Special Tender Committees' for line ministries and endorsed by the respective line minister would ensure that awards are made within bids validity periods.

4. Enhancing contract management practices:

Project implementation units should ensure timely sites' handover in order to avoid implementation delays, likely price increases with contracts' extension. Contracts' amendments should be processed timely in order to avoid contractual gaps or ineligible payments.

5. Simplifying payments processing:

Adopting several layers of review by different levels of management do not necessarily provide added value. The review of the payment processing procedures indicated that payment requests go through multiple reviews and signatures without factoring in the payment value or the associated risk. In some cases, the Minister or Head of Authority has to approve and sign twice through the processing steps. Revisiting the review and approval processes can bring significant time saving as well as reduced transaction cost. The following measures can be pursued:

- Eliminating redundant reviews, where the review procedures undertaken in Gaza and repeated in West Bank should be streamlined.
- Both the minister and the financial controller don't have to authorize and approve twice the processing of the same payment.
- A lead time for processing invoices should be established.
- Risk based reviews need to be applied to payments.
- Ministers can delegate the sign off for payments below certain threshold.

6. Backup arrangements for signing withdrawal applications:

Withdrawal applications are signed exclusively by the Accountant General, then the Minister of Finance. As such, in the absence of any of the two signatories for any reason, any pipeline application has to be put on hold until the authorized signatory is available, and in the respective order. A backup arrangement for each signatory can help expedite the processing and in turn contribute to timely availability of funds for projects implementation.

7. Capacity building and empowerment:

Project implementation arrangements should strike a balance between control and empowerment of entities at the subnational level. An example is the MDLF management and oversight of activities implemented at the municipalities level. A review of the distribution of roles and a gradual increase in municipalities' responsibility would be useful, while observing capacity, risk and efficiency gains.

8. Using technology for fiduciary oversight:

Given the complications and risks associated with procured assets' storage, transferring to Gaza, and reaching the final destination, the verification of assets existence, location and functionality is critical. The risk is further aggravated by the limitations on field supervision in Gaza. Remote sensing technologies can be introduced to track an assets' location. For small recurring payments (as in the Cash Transfer Project), mobile payments can be considered. In addition, citizen feedback can be solicited through social media.

9. Strengthening inventory controls:

Serial numbers tracking should be used where applicable, especially for high value items. This should help safeguard the inventory items and ensure accountability of respective staff and departments handling these items. The technology of Internet of Things (IOT), that involved use of sensors on inventory items that give out the physical location of the asset can be useful in monitoring the physical presence and use of these inventory items.

10. Tracking goods to final destination:

The PIU should continue to exercise a fiduciary responsibility to track and verify the reliability of inventory accounting and controls beyond the initial receipt. It should encompass the goods in transit up to the completion of installation.

11. Closing and payment cutoff date:

The grant closing dates and the cutoff for payments should be observed, taking into consideration the disbursement grace period, or the availability of other financing sources where applicable. The cost of the final external audit should always be ensured.

12. Clarifications on VAT and income tax application:

Insufficient clarity on Value Added Tax (VAT) and income tax application was noted, especially in the case of international consultants contracted by projects, as raised by PENRA under the Electricity Network Rehabilitation Project. The issue was also raised about suppliers in Gaza who were exempt from VAT and then this arrangement was overturned without sufficient guidance on application. It is recommended that the VAT and income tax departments at MOFP issue detailed instructions on the

respective rules (including the arrangements for contracting and settling payments to international firms and consultants).

13. Effective Implementation of the Public Procurement Law (PPL) No. 8 of 2014:

The enactment of the PPL, and the establishment of a procurement policy and oversight body, have brought substantial improvement to the legal and institutional framework for public procurement. However, several provisions of the PPL remain largely unimplemented; namely operationalization and strengthening the oversight institutions; introducing the necessary implementation tools (national standard bidding documents, single procurement portal, complaint handling mechanism, etc.) and capacity building of the various stakeholders. Effective implementation of the PPL (to be supported by the Bank through the PFM Improvement Project) is expected to improve the performance of the national procurement system on aspects related to efficiency, transparency, accountability and integrity. Specific components of the national procurement system shall be adopted for procurement under Bank IPFs, as they become available.

Review Summary per Project:

A. P116199 - GZ Electricity Network Rehabilitation, TF18207 and TF11639

The project development objective is to rehabilitate and expand the electricity networks in Gaza to improve their reliability and performance. There are two components to the project: The first component is network rehabilitation and expansion, and the second component is Gaza Electricity Distribution Company (GEDCO) capacity building and technical assistance to Palestine Energy and Natural Resources Authority (PENRA).

The project was restructured to include additional financing of US\$15 million to help finance reconstruction and rehabilitation of electricity network infrastructure that has been extensively damaged as a result of hostilities in Gaza during the period of July 5 to August 26, 2014. The AF became effective in February 2015. It finances supply and installation of electricity distribution infrastructure, and associated implementation costs, to (i) reconstruct damaged electricity infrastructure and restore basic electricity services; (ii) strengthen the existing network and improve supply in areas where population movement has increased load; (iii) re-establish and improve revenue collections for electricity; and (iv) restore and enhance the capacity of PENRA and GEDCO to deliver electricity services.

Project Number	Project Name	TF Number	TF Amount (in USD)	Disbursed Feb. 2018 (in USD)	Closing Date
P116199	GZ Electricity Network Rehabilitation	TF18207	15,000,000	13,494,064	3/31/2019
P116199	GZ Electricity Network Rehabilitation	TF11639	8,000,000	6,461,502	3/31/2019

The overall responsibility for procurement and contract management rests with PENRA, through the PIU in Ramallah. Project procurement is implemented in accordance with the World Bank Procurement Guidelines, January 2011, revised July 2014. The AF was prepared according to OP10.00 paragraph 12 "Projects in Situations of Urgent Need of Assistance or Capacity Constraints". Therefore, simplified procurement procedures were introduced for the AF, however the PIU opted to follow regular procurement arrangements applicable to GENRP.

1. Project payments are co-signed by the Minister (PENRA Head) and the financial director. All payments are made by bank transfers. No paper checks are used, except for minor expenses and petty cash.
2. The latest Procurement Plans for GENRP and GENRP AF date to May 2017. All envisaged procurement activities for GENRP AF have been completed and funds fully committed, whereas under GENRP, there is only one outstanding procurement activity for the supply of prepaid electricity meters (est. US \$1.1 m), which was repeated twice. A review of the last bidding proceedings by global technical experts considered that, from a technical point of view, the incorporation of 6,000 prepayment meters for single-phase customers is not an effective approach to address reduction of high losses in the electricity supply. The review recommended that GEDCO joins its sister companies in the West Bank in implementing a Revenue Protection Program (RPP) targeting the largest customers. Consequently, PENRA canceled the bidding and is currently revising the bidding documents, with the help of the Bank's technical experts.
3. Most of the project procurement packages for a total amount of US\$ 16.8 million were subject to the Bank's prior review. In addition, the Bank team carried out 4 ex-post procurement reviews (PPRs) in the period from effectiveness to date. The last two PPRs carried out in June 2017 and March 2018 comprised: (i) a desk review of procurement and contract documentation from advertising to contract

completion, and (ii) physical inspections of Goods supplied under the project and stored at GEDCO's warehouse in Gaza, as well as three randomly selected locations where goods had been installed. The following three contracts were subject to the procurement review:

Description	Awardee	Amount (USD equiv)	Proc Type	Proc Method	Date of Award
Supply of M.V Isolating Switches and Ring Main Units	Sartaba for Trade & Contracting Company (SATCO, Nablus, Palestine)	\$448,955	Goods	ICB	28-Mar-16
Supply of L.V Switches and Distribution Boards	Al-Omar Company LTD for Industry, Trade & Contracting, Gaza, Palestine	\$504,600	Goods	ICB	16-Mar-16
Installation and civil works for the reconstruction of LV and MV networks, Lots 3, 4 and 5	Elkhaesie co. for industry general trade & Construction/ Gaza	\$1,181,627	Works	NCB	13-Jul-17

4. The review concluded that procurement was carried out in accordance with the Bank Procurement Guidelines, the Grant Agreements and the approved procurement plans. The awards of the reviewed contracts were made in accordance with the recommendations contained in the evaluation report and evaluation criteria specified in the bidding documents. For each of the reviewed contracts, a good number of competitive bids was received and the award did not vary substantially from the cost estimate. Following is a summary of key observations:
- The overall implementation of the contracts complies with the contracts' terms and conditions. The supply contracts were extended several times due to closures and restrictions on movement of goods. The contract for installation works was extended by 6 months mainly due to a delay (around 3 months) in the sites handover to the contractor by the municipalities. Other reviewed contracts showed that the delivery time of the items had often encountered delays, thus requiring several extensions to the project closing dates. Under a contract for supply of the SCADA system under TF11639, the contract signing was in March 2016, initial delivery took place in July 2016, but the items were only installed in July 2017, final configuration and training was completed in December 2017, and final payment was made in January 2018. As the project closing date is approaching, more attention to the delivery dates is crucial to minimize the risk that the goods are delivered beyond the project closing date resulting in ineligible expenditures.
 - Payments against the supplied goods were made in accordance with the payment terms stipulated in the signed contracts. Whereas for installation works, only 22.3% of the total contract amount was paid to the contractor while the installation activities included in the contract have almost been completed. Delays in processing payments to the contractor were also noticed, which represents a departure from the payment terms stipulated in the awarded contract.
 - Contract records and files were available for review, and were filed separately for each contract. However, it was noted that several contract-related documents, including contract amendments, are not dated.
 - Physical inspections carried out in June 2017 revealed improper material storage in GEDCO warehouses in Gaza which prohibited the reviewers at the time from doing the physical count or

quality verification of the goods delivered under the reviewed contracts. At the time, the reviewers noted excessive overcrowding of goods in the warehouse, which forced GEDCO to use an adjacent house yard to keep some items under inappropriate and unsafe storage conditions. GEDCO explained that the situation resulted from limited storage space and delays in commencing the installation works. In March 2018, the reviewers visited the GEDCO warehouse and noted substantial improvement in the management of the warehouse and storage conditions. Physical inspections of selected items procured under the projects were carried out and were compliant. The findings of the physical inspections are documented in Annex 1.

5. In general, GEDCO warehouse visited in March 2018 was well organized and the sampled items were accessible for identification. Large stocks of items existed at the warehouse such as outdoor and indoor distribution transformers. For installation contracts, the Project should ensure the completion of installation by the closing date for the final payment to be eligible.
6. While GEDCO has an automated inventory system, the serial number of each item is not consistently captured in the system, which increases the inventory control risk in some cases. For example, the serial numbers of the modems of the SCADA system were not identified in the receiving documents in GEDCO warehouse. The dispatching of modems to the SCADA control center also lacked such identification, which resulted in inventory items not properly identified. A batch of 96 modems (2G/3G secure remote access wireless modems) with a total value of US \$121K for the SCADA project was selected for review. The modems were reported as transferred to the SCADA project on December 17, 2017 without being labeled for tracking purposes. A visit to the SCADA system control room was conducted. No tracking evidence by serial number was maintained for the modems handed over to the SCADA project staff members. Although the SCADA control center was able to account for the total number of modems received, the inability to track the dispatching of items by serial number raises concerns about the strength of controls.
7. Contract WB N-7, Lot 5 dated July 11, 2017 in the amount of US \$51,790 was reviewed. It showed that the supplier (NESCO & MENA Investments joint venture) requested a contract extension, attributing the request to a delay of 70 days caused by PENRA's PIU in processing the advance payment. PENRA's team clarified that this delay was caused by the time it took to secure the Minister of Finance's endorsement of new contracts. Hence, the extension was granted to compensate the supplier for that delay with a corresponding time period. The practice of securing Minister's endorsement of individual new contracts seems to add little value, compared to its effect on implementation time and the transaction cost associated with processing of extension. Furthermore, it increases the risk to the suppliers' cash flow management, which is likely to be reflected in their bidding quotations for contracts.

B. P074595- GZ North Gaza Emergency Sewerage Treatment

1. The project objectives are to: (a) mitigate the immediate and gathering health and environmental safety threats to Communities surrounding the sewage lake at the existing BLWWTP; and (b) provide a satisfactory long-term solution to the treatment of wastewater for the Northern Governorate in Gaza.
2. The project is executed by the Palestinian Water Authority (PWA). The overall program is financed through several funding sources including five trust funds, two of which have closed in December 2017 and three are closing in June 30, 2018.

Project Number	Project Name	TF Number	TF Amount (in USD)	Disbursed Dec. 2017 (in USD)	Closing Date
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P074595	GZ North Gaza Emergency Sewerage Treatment	TF16501	5,000,000	2,240,818	6/30/2018
		TF16844	3,000,000	1,348,103	6/30/2018
		TF92196	12,000,000	7,276,576	6/30/2018
		TF97081	7,000,000	6,579,338	12/31/2017
		TF57109	7,644,976	6,196,531	12/31/2017

- The overall responsibility for procurement and contract management rests with PWA, through the PIU in Gaza. Project procurement is implemented in accordance with the World Bank Procurement Guidelines, January 2011, revised July 2014. The latest procurement plan was cleared by the Bank on May 3, 2018. All envisaged procurement activities have been completed and funds fully committed except two outstanding activities for the procurement of fuel and chemicals under the shopping procurement method.
- The main and largest contracts financed under the project and their subsequent amendments which amount in total to US\$ 62.8 million were subject to the Bank's prior review. The ones that are currently active include: (i) the contract for works completion and commissioning of the wastewater treatment plant (WWTP), which is currently at the commissioning stage, and for which Operational acceptance is expected by June 30, 2018 upon satisfactory commissioning of the plant; (ii) The operation and maintenance contract of the WWTP, which commenced on March 1, 2018. Only 4 months of the 2-year contract duration will be financed by NGEST; (iii) The contract for construction supervision which extends up to the end of the defects liability period but will only be financed by NGEST up to June 30, 2018; and (iv) The contract for effluent recovery and irrigation scheme-first stage, which has been substantially completed. In addition to prior reviews, the Bank carried out five PPRs over the lifetime of the project. The last PPR was carried out in May 2018 with no major noncompliance noted. It covered the following contracts:

Description	Awardee	Amount (USD equiv)	Proc Type	Proc Method	Date of Award
Supply of Chlorine and Chemicals - Water Disinfection and Treatment	Esmael Alawa & Sons Co	\$84,692	Goods	NCB	08/06/2017
Design and bidding documents for BLWWTP decommissioning & Rehabilitation of Effluent Lake	JV Eco conserve Environmental Solution & Engineering and Consulting, Gaza, West Bank & Gaza	\$95,000	Consulting Services	SSS	28/11/2017
NGEST- Recovery and Re-use Scheme Dedicate Power Line	Saqqa & Khoudary Co.	\$103,980	Works	Shopping	18/02/2018

- The 2018 operating plan showed forecasted disbursements of US \$14 million, out of which US \$10.5 million is to be financed from the trust funds. Since the plan includes payments for goods, services, and salaries of PIU staff to be incurred after the TFs closing dates, the mission advised the PIU to confirm

the availability of eligible funding for these expenditures from the other financing sources. The programming of expenditures did not include the cost of the external audit. The audit is expected to be contracted by MoFP in June 2018, with an audit report due date of June 2019. While the PIU is located in Gaza, all of the original documents are kept in Ramallah. The terms of reference for the external audit take that into account.

6. A contract was awarded to "Saqqa & Khoudary Company", with a value of US \$10,970,993 for Effluent Recovery and Irrigation Scheme of North Gaza Emergency Sewage Treatment (NGEST) - First Stage. Due to an initial financing gap identified at the time of contract award (resulting from AFD withdrawing its intention to co-finance the effluent recovery scheme), PWA negotiated a reduction in the scope of works which brought the contract amount down to US \$8,217,874. However, with the financing later made available, the original contract scope was reinstated through a contract amendment which brought the contract to the original amount of US \$10,970,993.
7. With the Bank's prior approval, the contract was amended twice for additional works in the amount of US \$283,776 and US \$96,357, respectively. The summary of physical progress up to December 26, 2017 reported US \$462,884 in payments for variations, which did not match the amount reflected in the signed contract amendments. The PIU response indicated that the discrepancy was attributed to errors in calculating the value of the second amendment which resulted from earlier errors in applying the granted discount to certain items of the BOQ. As a result, the value of the second amendment was corrected from US \$96,357 to US \$127,873. PWA informed the Bank of this correction and submitted a third amendment for an amount of US \$105,205. The Bank cleared the amendment which brings the total contract amount to US \$11,487,850. The consolidation of responses to most queries on the tendering process, payment calculation and payment revision with one staff (procurement officer) raises some concerns about segregation of duties as a key element of internal control.
8. The statement of receipts and expenditures of TFs 97081, 57109, & 92196 for the year ended December 31, 2017 showed a foreign exchange loss of US \$276,109, which differs from the amount of US \$358,502 reported in the designated accounts' reconciliation. Further analysis is required to determine the nature of the amount and the cause of discrepancy. The nature of the reported exchange difference will be further clarified by PWA to the Bank before end of June 2018. The Bank FM Specialist will then verify accuracy, accounting treatment, and potential effect on expenditure eligibility. In any case, exchange losses are not eligible expenditures per the applicable Bank policies.
9. The payment processing cycle is extremely lengthy. It involves reviews by an international consultant, PWA site manager, procurement and finance departments at the PWA's PIU, Head of PIU, Deputy Minister of Water, and MoFP controller in Gaza. Upon sending the documents package to Ramallah, a second round of reviews takes place involving the PWA financial officer, the financial director, the Minister of Water, and the MoFP controller. While some of the reviews are critical, revisiting the process to eliminate the redundant reviews can contribute to efficiency gains.
10. Contract NGEST 06-2007 for construction supervision was reviewed. The contract value was increased to US \$982,667 and Euro 2,517,300 up to amendment no. 6 that covered the period up to December 31, 2017. Amendment no. 5 covered the period till June 30, 2016, while amendment no. 6 was only signed in December 2016. This means that there was a gap of six months period in the contract validity.

11. In addition, amendment no. 6 covers 10 months, while amendment no. 7 was submitted for the Bank's no objection in April 2018. This means another gap of four months which indicates that the contract management is experiencing control weaknesses.
12. Incremental operating costs: Fuel expenses during the period from January 2017 to March 5, 2018 amounted to US \$28,110. Supporting documents were checked and no exceptions were observed.

C. P150494 - Gaza Sustainable Water Supply Program

The project is executed by the Palestinian Water Authority (PWA).

Project Number	Project Name	TF Number	TF Amount (in USD)	Disbursed Feb. 2018 (in USD)	Closing Date
P150494	Gaza Sustainable Water Supply Program	TF17186	2,500,000	2,275,816	5/31/2018

1. The overall responsibility for procurement and contract management rests with PWA, through the PIU in Gaza. Project procurement is implemented in accordance with the World Bank Procurement Guidelines, January 2011, revised July 2014. The project finances two contracts: (i) the contract for a Project Implementation Consultant (PIC) to support Associated Works to Gaza Desalination Plant – Design Stage; and (ii) the contract for a legal advisor. Both contracts were subject to the Bank’s prior review.
2. The PIC-Design Stage contract was awarded to the JV Lotti Ingegneria and A.L. Engineering for US \$ 2,290,480. Due to delays in land acquisition by PWA, the contract was amended to compensate the consultant for additional costs incurred as a result of the delay and additional services. The contract amount was increased by US \$120,950 bringing the contract amount to US \$2,411,430. The duration of the contract was also extended up to April 30, 2018. The payment schedule for the contract includes an instalment equal to 5% of the original contract amount which is payable upon the submission of the associated works tendering report. Given that funds have not been secured by PWA to finance the construction of associated works, this portion of the services was not provided by the consultant and the associated amount of US \$114,523 remains unused.
3. The external auditors have been contracted by MOFP for an amount of US \$13,688 to audit project accounts for 2 years up to the period ending December 31, 2017. A contract amendment in the amount of US \$4,000 is being processed to cover the audit of the project accounts for the extension up to the end of the grace period.
4. Contract SSS1/2016/GDSP, for an amount of US \$86,625 with the consultant “Equity Legal Group” has an unused contingency amount of US \$7,875. The review included supporting documents, payment evidence, and processing procedures. No exceptions were identified.

D. P127163 – Second Municipal Development Project (MDP II)

The project development objective is to improve municipal management practices for better service delivery and municipal transparency. The project has five Windows:

- Municipal Grants for Capital Investments.
- Support to Municipal Innovations and Efficiency.
- Capacity Building for municipalities and the MDLF.
- Project Implementation Support and Management Costs.
- Gaza Emergency Response.

In addition to the World Bank, nine other donors and the PA are financing the project. In January 2015, additional financing was provided by the World Bank and the other funding partners in response to the Gaza emergency resulting from the hostilities in Gaza during the period of July 5 to August 26, 2014. The Project is implemented by the Municipal Development and Lending Fund (MDLF). It is financed as follows.

Project Number	Project Name	TF Number	TF Amount (in USD)	Disbursed Feb. 2018 (in USD)	Closing Date
P127163	Second Municipal Development Project	TF16476	25,800,000	25,799,060	2/28/2018
		TF14164	10,000,000	10,000,000	2/28/2018

1. The MDLF works with 25 municipalities in Gaza. Two local technical consulting firms are hired to support the project implementation, mainly infrastructure services, in Gaza North, South and Middle governorates.
2. The allocations of funds to municipalities follow the application of a formula based allocation that factors in several criteria. These include population, poverty levels and key performance indicators (KPIs) such as disclosure, transparency, duration of issuing construction permits, budget percentage allocated for maintenance.
3. The overall responsibility for project procurement rests with MDLF. Project procurement is implemented in accordance with the World Bank Procurement Guidelines, January 2011, revised July 2014, following the procedures outlined in MDLF Procurement Manual. Municipalities in Gaza carry out the procurement processes for Windows 1 and 5. They prepare and issue bids with oversight from MDLF and the local technical consultants. However, the project funds are exclusively maintained by MDLF.
4. The vast majority of procurement packages awarded under MDPII were subject to the Bank's post review. Over the lifetime of the project, the Bank carried out 4 PPRs which comprised desk review of contracts awarded under the project and physical inspections of delivered goods/completed works. The third and fourth PPRs were carried out in June 2017 and March 2018. 7 of the reviewed contracts were awarded by municipalities in Gaza, as follows:

Description	Awardee	Amount (USD equiv)	Proc Type	Proc Method	Date of Award
Development of the Central Vegetables Market-Gaza Municipality	Three Brothers Co. for Contracting	EUR 315,485 (\$346,513)	Works	NCB	31/10/2016
Development of the Area between Khalil Al Wazir and Shokry Al Kowatly Streets and Al Nasser and Saed Al Aas Streets-Gaza Municipality	Golden Border Co. Ltd	Euro 364,198 (\$415,437)	Works	NCB	4/12/2016
Development of Interior Streets -Phase I, Al Qarara Municipality	Wahet Al Salam Co. for General Trading and Contracting	EUR 154,661 (\$161,562)	Works	Shopping	18/12/2016
Supply of Vehicle-Abasan Al Jadeeda Municipality	Hussam and Alaa bedwan Co.	EUR 27,300 (\$28,512)	Goods	Shopping	24/12/2016
Construction of two commercial floors near the Municipal water reservoir- Rafah Municipality	Abu shamala Co. for General Trading & Contracting	Euro 243,972.96 (\$272,079)	Works	NCB	05/09/2016
Supply of Solid Waste Containers, Khan Younes Municipality	Al Qana Company for Trading, Manufacturing & Contracting	Euro 49,745 (\$55,467.2)	Goods	Shopping	2/6/2016
Rehabilitation of the ground floor in the main municipality building/Abssan Al-Kabera Municipality	Forat Al-Janoub Company for Trade & Contracting	Euro 20,000 (\$23,474)	Works	Shopping	06/10/2017

5. The review concluded that procurement was carried out in accordance with the Bank Procurement Guidelines, and the MDLF Procurement Manual. Bids were evaluated based on the evaluation criteria specified in the bidding documents and contracts awarded to the lowest evaluated responsive bidders identified in the evaluation reports. Following is a summary of key observations:

- High discrepancies were noticed between the awarded contracts amounts and the estimated cost, prepared by municipalities. The importance of preparing realistic cost estimates which are based on prevailing market rates and a good definition of the scope of work cannot be overstated.
- Short bidding periods were noticed in a few contracts, particularly the time period between the pre-bidding site visit and bid closing dates. The purpose of a pre-bidding site visit is for bidders to better understand the nature of works, request clarifications and get answers to allow them to submit competitive and responsive quotations. Accordingly, it is important that municipalities properly plan and schedule bidding processes and allow sufficient time for each stage to ensure receipt of competitive and responsive quotations.

- Certain portions of contract implementation periods were left uncovered with valid performance securities; such periods are encountered either between the original security expiry date and the issuance of its extension or in the issuance of a contract prior to receiving the performance security.
 - Delays in delivering goods/services were noticed without having proper documentation/justifications for such delays. Delays in processing payments to contractors were also noticed, which is inconsistent with the payment terms stipulated in the signed contracts.
 - Discrepancies between work items documented in the contract documentation and actual items implemented on site (during the physical inspection for one contract, some work items were not actually implemented, even though these items have been documented in the contract documents as completed items. In another contract the quantities of some items, documented as implemented items in the contract file, did not match the actual quantities verified on site). Changes to the work items were ordered and implemented without issuing a variation order.
6. A selected sample of contracts at Jabalia municipality was reviewed. Complete supporting documentation was available, including advertisements, committees' establishment decrees, committees' reports, contracts, and receiving reports. Selected equipment was tracked from invoice to municipality garage and warehouses.

E. P121648 - Gaza Solid Waste Management Project

The project development objective is to improve solid waste management services in the Gaza Strip through provision of more efficient, environmentally and socially sound waste management system. The project consists of the following components:

- Solid Waste Transfer and Disposal Facilities.
- Institutional Strengthening.
- Primary Collection and Resource Recovery
- Project Implementation Support and Management Costs.

The Project is executed by the Municipal Development and Lending Fund (MDLF) through a Project Development and Support Unit (PDSU), housed in the Joint Service Council for Solid Waste Management of Rafah, Khan Younes and Middle Area of Gaza Strip (JSC-KRM).

Project Number	Project Name	TF Number	TF Amount (in USD)	Disbursed Feb. 2018 (in USD)	Closing Date
P121648	Gaza Solid Waste Management	TF16835	10,000,000	2,474,851	30/11/2020

1. The Gaza Solid Waste Management Project was approved by the World Bank Board on March 31, 2014 and declared effective on July 14, 2014. The project has parallel financing through six donors and the PA amounting to US \$31.13 million, of which 36.4% has been disbursed and 63.5% has been committed against contracts. The World Bank funding amounts to US \$10 million, 25 percent or US \$2.5 million has been disbursed and approximately US \$6 million is committed against contracts, all of which are expected to be completed by the project closing date. The project was recently restructured and a no cost extension of one additional year was added in order for the project to reach all its objectives.
2. A financial officer is based in Gaza working under the direct supervision of the finance and administrative department manager at MDLF in Ramallah. The financial officer is responsible for: (i) receiving payment requests from contractors/suppliers/consultants; (ii) reviewing payment requests and ensuring that all needed supporting documents are attached; (iii) obtaining technical approval of joint service council's technical and operational unit; and (iv) transferring original payment requests to the MDLF Ramallah for final review and payment. MDLF in Gaza does not handle any funds. All original documentation is kept in Ramallah.
3. Due to the multiple donors involved, supervision missions are planned jointly. Reporting is done for the World Bank and AFD funding together being co-financiers. Audits for MDLF are carried out by one auditor so that the auditor can look at the project holistically with all the different funding sources. Audit reports issued have expressed unmodified opinions on the project financial statements.
4. The overall responsibility for procurement rests with MDLF, through the PDSU. Project procurement is carried out in accordance with the World Bank Procurement Guidelines January 2011, revised July 2014. The procurement plan was last updated in February 2018 to introduce additional procurement activities and other changes agreed during the Mid-Term Review of December 2017.

5. The main contract financed under the project- Construction of Sofa Landfill is subject to the Bank and AFD's prior review. It was awarded in October 2016 to a joint venture comprising an international contractor and a local contractor for EUR 7.78 million (excluding VAT) which is relatively lower than the cost estimate (EUR 12 million). Due to initial delays in project effectiveness which was caused by delays in land acquisition and disagreement around the disposal site of excavated material, a contract amendment for EUR 1.185 million was executed to provide for the construction of short term and extension cells, the disposal of scattered waste and shaping of the existing landfill to ensure its long-term stability, bringing the contract amount to EUR 9,552,867 including VAT. A second contract amendment is currently under review by the Bank and AFD. While the proposed amendment is not expected to increase the contract price, it entails a change of the leachate drainage system and other changes which would require close review and technical verification. To avoid delays in contract execution due to the accumulation of excess excavated materials, a separate contract was issued for the transfer and disposal of excavated material from the construction site to the agreed disposal site.
6. An ex-post procurement review of 5 contracts awarded under the project, with a total amount of US\$ 231K, was carried out in December 2017. The review concluded that procurement processes and contract administration are of generally good quality, reliability, timeliness, and transparency, however, it pointed out some improvements that can be made in the preparation of more realistic cost estimates based on market rates; better definition of the scope of work and technical specifications; and timeliness of payments.
7. The team reviewed sample payments including for the Sofa Landfill Construction contract. The work on this contract is progressing and no irregularities were noted in any of the payments reviewed or in reviewing the internal controls in place.

F. P119307 - Cash Transfer Project

This is an additional financing in the amount of US \$10 million to the West Bank and Gaza Cash Transfer Project, which started in 2011. The additional financing supports: (i) The scaling up of activities under the cash transfer component of the WBGCTP which provides quarterly cash payments to extremely poor households, and (ii) the Palestinian Authority's efforts to continue reforms of the cash transfer program.

The additional financing has the same project development objectives as the original project, which are to:

- (i) mitigate the impact of the continued socio-economic crisis on a subset of the extremely poor and most vulnerable households; and
- (ii) Support the PA's efforts to continue reforms of the Cash Transfer Program (CTP).

The Project is implemented by the Ministry of Social Development (MOSD), through a PIU in Ramallah.

Project Number	Project Name	TF Number	TF Amount (in USD)	Disbursed Feb. 2018 (in USD)	Closing Date
P119307	Cash Transfer Project	TF15389	10,000,000	10,000,000	6/28/2018

1. The PA cash transfer program started in 2004 through the Bank-financed Social Safety Net Project. The inclusion of Gaza in the program started in 2010. The current beneficiaries targeting applies Proxy Means Test (PMT) formula as an indication of the poverty level. The PMT formula applies a set of variables to assess households' welfare as well as the eligibility of beneficiaries to receive cash transfer support.
2. The mode of payment has changed over time. It initially used checks handed at social offices, then payments through post offices, then block transfers to banks with lists of beneficiaries who claim their benefits from the banks. The mechanism later developed to transfers of payments directly into the beneficiary's own bank account.
3. The controls in place include the application of the PMT formula, field visits to households by social workers, recertification of households, cross checking different databases, medical reports, archiving systems, complaints handling mechanism, government oversight and external audits required by donors.
4. The oversight and audit work includes field visits to verify that social researchers have actually undertaken the visits registered in the journal records in each social directorate. It also includes reaching out to the ID authority, Ministry of Labor and/or the employer of the applicant in case of allegations by other citizens about the beneficiary's eligibility.
5. Only a small allocation was assigned to procurement of goods and consultancy services managed by the PIU in Ramallah. Project Procurement is implemented in accordance with the World Bank Procurement Guidelines, January 2011, revised July 2014. It mainly comprised very small and simple procurement packages procured following the shopping method in addition to individual consultants (PIU staff) and external audits. The latest procurement plan was approved by the Bank on April 11, 2018 to allow the use of uncommitted funds for the procurement of furniture and equipment for the benefit of complaints handling units at selected MOSD District Offices in the West

Bank. MOSD confirmed that procurement will be completed and goods delivered prior to the project closing date of June 28, 2018.

6. The Bank carried out one ex-post procurement review over the project lifetime. The review was carried out in March 2017 and included 3 contracts awarded under the project during the period from November 16, 2015 to December 31, 2016, with a total amount of US\$ 91.5k. The review concluded that all contracts were awarded to the lowest evaluated responsive bids, however it highlighted a few aspects which would require improvements. The main observations included: (i) high discrepancies between the awarded contract amounts and the estimated costs, (ii) extensions of bid closing dates were not properly documented, and essential documents and forms were not duly completed and/or attached to the quotations, (iii) delays in the delivery of goods mainly attributed to difficulties associated with the access of materials to the West Bank through the Israeli borders, delivery periods were extended without proper documentation; and (iv) substantial delays in the processing of payments.

List of projects included in the in-depth review:

Project Number	Project Name	TF Number	TF Amount (in USD)	Disbursed Feb. 2018 (in USD)	Closing Date
P116199	GZ Electricity Network Rehabilitation	TF18207	15,000,000	13,494,065	3/31/2019
		TF11639	8,000,000	6,461,502	3/31/2019
P119307	Cash Transfer	TF15389	10,000,000	10,000,000	6/28/2018
P121648	GZ Solid Waste Management	TF16835	10,000,000	10,000,000	11/30/2019
P074595	GZ North Gaza Emergency Sewerage Treatment	TF16501	5,000,000	3,444,817	6/30/2018
		TF16844	3,000,000	1,798,055	6/30/2018
		TF97081	7,000,000	7,000,000	12/31/2017
		TF92196	12,000,000	7,994,147	6/30/2018
		TF57109	7,644,976	6,545,487	12/31/2017
P127163	Second Municipal Development	TF16476	25,800,000	25,799,060	2/28/2018
		TF14164	10,000,000	10,000,000	2/28/2018
P150494	Gaza Sustainable Water Supply Program	TF17186	2,500,000	2,275,816	5/31/2018



Annex 1: GENRP Physical Inspection Visit (29 March 2018)



Objective:




On March 29th, 2018, the World Bank reviewers visited the main warehouse of GEDCO in Gaza city. The purpose of the visit was: to conduct a physical inspection for the goods procured under GENRP-AF whether available in the warehouse or already installed. The reviewers also assessed the warehouse management system (WMS) adopted by GEDCO, and measured the efficiency of the entire warehouse operation cycle which includes: receiving of goods, inventory management, order management, and dispatch of the goods to installation sites.




The findings of the physical inspection visit:

1. The reviewers were able to access the inventory management records for the entire goods supplied under contracts N1, N2, N4, & N7. The table below shows the quantities of randomly selected, high value items available in the warehouse, as recorded in the WMS and verified by the reviewers on the ground.

No.	Item Description	Unit	Quantity per contract	WMS Records			Quantities Verified by Reviewers in the warehouse	Comments
				Quantity Received	Quantity Distributed	Quantities Available		
Indoor & Outdoor Distribution Transformers (N1-LOT 1):								
1	Outdoor distribution transformer 630KVA	No.	70	70	60	10	10	
2	Outdoor distribution transformer 800 KVA	No	50	50	46	4	4	
3	Indoor distribution transformer 630KVA	No.	5	5	0	5	5	
4	Indoor distribution transformer 800 KVA	No.	3	3	0	3	3	
								

No.	Item Description	Unit	Quantity per contract	WMS Records			Quantities Verified by Reviewers in the warehouse	Comments	
				Quantity Received	Quantity Distributed	Quantities Available			
ABC Cables with Standard Aluminum Conductor (N1-LOT 1):									
5	ABC Cables (3x150)	ML	150,000	150,001	149,981	20	20	The available cable rolls showed that the quantities available in the records are accurate. (each role=500ML of cables)	
6	ABC Cables (3x95)	ML	83,000	83,179	80,875	2,304	2,304		
7	ABC Cables (3x50)	ML	70,000	70,177	69,780	397	397		
									

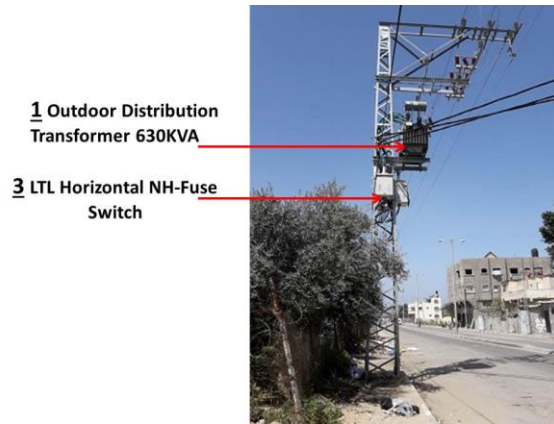
No.	Item Description	Unit	Quantity per contract	WMS Records			Quantities Verified by Reviewers in the warehouse	Comments
				Quantity Received	Quantity Distributed	Quantities Available		
Indoor & Outdoor Distribution Transformers (N7-LOT 1):								
8	Outdoor distribution transformer KVA1000	No	42	42	22	20	20	
9	Indoor distribution transformer KVA1600	No	1	1	0	1	1	
10	Pole Mounted L.V Distribution Board	No.	10	10	9	1	1	
								

No.	Item Description	Unit	Quantity per contract	WMS Records			Quantities Verified by Reviewers in the warehouse	Comments
				Quantity Received	Quantity Distributed	Quantities Available		
Supply of M.V isolating Switches and Ring Main Units (N4-LOT 1)								
11	36kv, 3 phase Switch disconnecter	No.	180	180	168	12	12	
12	24KV, 630 A Switchgear 16kA (CTC)	No.	7	7	0	7	7	
Supply of L.V Switches and Distribution Boards (N4-LOT 2)								
13	LTL Horizontal NH-Fuse Switch	No.	350	350	190	160	160	
14	L.V Distribution Board 1600A	No.	5	5	0	5	5	
15	L.V Distribution Board 2000A	No.	5	5	0	5	5	
								

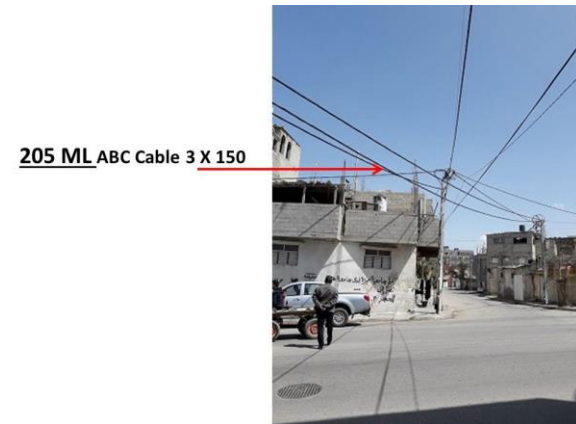
2. The reviewers randomly selected three locations where goods had been installed, in an attempt to track the goods throughout various steps, from receiving the quantity as stated in the contract, storage and dispatch to the installation sites. Two out of these three locations were selected as part of the physical inspection of installation works completed by Al-Khaesie Co. under the contracted selected for the FY18 ex-post procurement review.

Location #1: Salat Al-Nakheel – Middle Gaza Governorate/ Al-Khaesie Company:

1. The warehouse management system (WMS) produced a list of all the goods and their quantities allocated and supplied to the selected location.
2. The main Items have been verified by the reviewers on site.



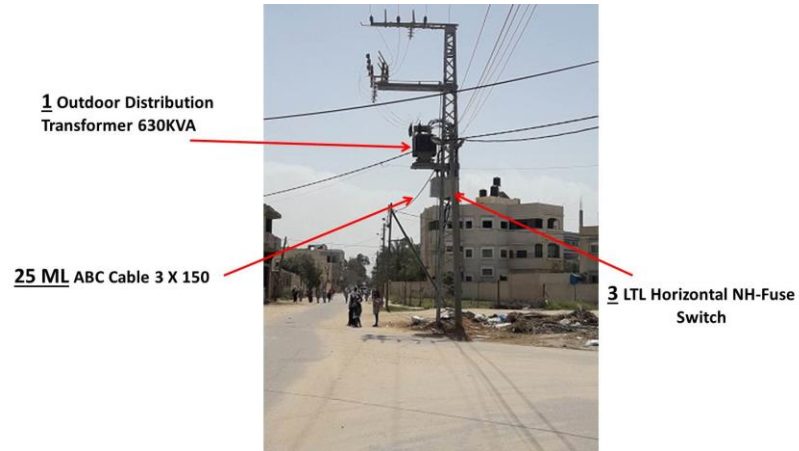
Items No. 1 & 13 in the table Above



Item No. 5 in the table Above

Location #2: White Flower Halls – Middle Gaza Governorate/ Al-Khaesie Company:

1. The warehouse management system (WMS) produced a list of all the items and their quantities allocated and supplied to the selected location.
2. The main Items have been verified by the reviewers on site.



Items No. 1,5, & 13 in the table Above



Location#3: North Gaza/ 1000KVA Outdoor Distribution Transformer installed by GEDCO.



Item No 8 in the warehouse: 1000KVA Outdoor Distribution Transformers



1000KVA Distribution Transformer installed in in North Gaza

Findings:

1. The reviewers noticed that the warehouse management system (WMS) developed and adopted by GEDCO is capable of recording and tracking every step in the supply chain processes (Inbound, storage, & outbound). Moreover, WMS is able to produce reports for all items supplied for each work site.
2. The reviewers verified certain items through comparing the available quantities, as recorded in GEDCO's WMS and the quantities stored in the warehouse, and found them identical.
3. The reviewers also visited 3 work sites to physically inspect the installation of selected items procured under GENRP-AF. The reviewers also noticed that the quantities of the main items supplied to the inspected sites as recorded in the report produced by WMS and the quantities of the same items installed are identical.
4. The reviewers reminded PENRA & GEDCO of the need to increase the available storage space in order to accommodate GEDCO operations and avoid overcrowding of goods.