

INTERNAL AUDIT DIVISION I
OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. Søren Jessen-Petersen
A: Special Representative of the Secretary-General
UNMIK

DATE: 28 June 2006

REFERENCE: AUD-7-5:70 (⁰⁶⁻⁰⁰³⁶³ /06)

FROM: Dagfinn Knutsen
DE: Acting Director, Internal Audit Division-I
Office of Internal Oversight Services

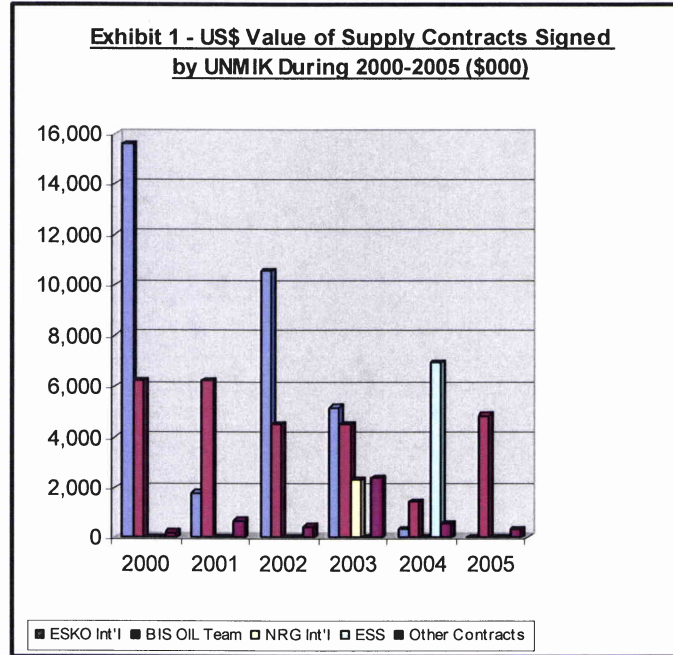
SUBJECT: **OIOS Audit No. AP2005/650/05: UNMIK's fuel contract with BIS Oil Team**
OBJET:

1. I am pleased to present herewith the final report on the subject audit, which was conducted during December 2005 to February 2006. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. We note from your response to the draft report that UNMIK has generally accepted the recommendations. Based on the response, we are pleased to inform you that we have closed recommendation 2 in the OIOS recommendations database, and recommendation 4 has been modified. In order for us to close out recommendations 1, 3, 4, 5 and 6, we request that you provide us with additional information as indicated in the text of the report. Please refer to the recommendation number concerned to facilitate monitoring of their implementation status. Please note that OIOS will report on the progress to implement its recommendations, particularly those designated as critical (i.e. recommendations 1, 3 and 5), in its annual report to the General Assembly and semi-annual report to the Secretary-General.
3. IAD is assessing the overall quality of its audit process and kindly requests that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.

I. INTRODUCTION

4. The audit, which focused on the UNMIK fuel contract with the BIS Oil Team (BOT), was a result of the OIOS annual risk assessment exercise conducted in November 2005. At that time, OIOS learned that BOT had over-charged UNMIK at least \$1 million during the past four and a half years. The Financial Investigative Panel, set up subsequently by the Division of Administration, estimated the over-charges to be \$2.2 million.

5. During the period under review, i.e., 2000 through 2005, the total number of supply contracts reached 82 with a total value of approximately \$75 million. Exhibit 1 shows the value of contracts with two major suppliers, namely ESKO International for rations supply and catering services and BOT for fuel and support services.



6. On 1 November 2000, UNMIK and BOT signed Contract No. MIK/CO058/00 for the provision of fuel and support services with a total not-to-exceed amount of \$6,225,953 per year for a period of four years. The contract went through several amendments and extensions.

7. The pricing schedule/contractor's price structure (Annex E of the Contract) stated that the price per liter of fuel that UNMIK pays to the contractor comprises variable and fixed components, as follows:

a. The variable component, based on parity ex-works refinery/ex-refinery prices defined by the Government of the Republic of Macedonia, depending on the world market price of fuel. The price is adjusted every two weeks and published in the Official Gazette of the Republic of Macedonia. The price is given for one (1) liter and is valid for the whole region of Kosovo and Macedonia.

b. The fixed component of the price covers the operational cost of the fuel stations, the bulk delivery (from the OKTA oil refinery in Macedonia to the Province and delivery to unmovable fuel consuming machines), bank commissions, dues levied during the export-import process (customs and police charges) and profit. The value of this component is added to each liter of fuel dispensed on the receiving equipment and equals \$0.0458/liter for major regional UNMIK fuel stations (MRUFS) and \$0.0597/liter for municipal UNMIK fuel points (MUFP).

8. Accordingly, the price/liter can be calculated as follows:

- \$0.3000 (summer diesel fuel) + \$0.0458 (MRUFS) = \$0.3458
- \$0.3000 (summer diesel fuel) + \$0.0597 (MUFP) = \$0.3597
- \$0.3092 (winter diesel fuel) + \$0.0458 (MRUFS) = \$0.3550
- \$0.3092 (winter diesel fuel) + \$0.0597 (MUFP) = \$0.3689
- \$0.3482 (Petrol/Gasoline) + \$0.0458 (MRUFS) = \$0.3940

9. The comments made by the Management of UNMIK on the draft audit report have been included in the report as appropriate and are shown in italics.

II. AUDIT OBJECTIVES

10. The audit objectives were to:

- a. Review the procedures in place for checking invoices, approving payments, and executing the contract terms and conditions;
- b. Understand why and how the Contracts Management Unit (CMU), the Procurement and Finance Sections did not detect earlier the over-charges made by BOT; and
- c. Identify any fraud indicators in the process.

III. AUDIT SCOPE AND METHODOLOGY

11. The audit covered the entire duration of Contract No. MIK/CO058/00, i.e., from November 2000 until April 2005. OIOS met with representatives of the Division of Administration (DOA), such as the Supply Section, Procurement Section, the Legal Office, and Finance Section in order to discuss the over-charges issue and obtain the necessary information and supporting documents needed to conduct the audit, including the report of the Financial Investigative Panel. OIOS selected a representative sample of disbursement vouchers (DVs) and related invoices for recalculation. Also, OIOS reviewed the contract award and the invoice checking, approval and payment processes; observed the work performed by CMU, Receiving and Inspection Unit (R&I) and Disbursement Unit; and documented the flow of the procurement and payment processes.

IV. OVERALL ASSESSMENT

12. The audit found that the internal control system, as designed by Management, failed to detect and stop earlier the over-charges made by BOT for more than four years. The roles and responsibilities of the Contracts Management Unit (CMU), Receiving and Inspection Unit (R&I) and Disbursement Unit as regards the payment review and approval process were not clearly defined and divided. UNMIK Administration needs to strengthen internal controls procedures to prevent recurrence of such overpayments.

V. AUDIT FINDINGS AND RECOMMENDATIONS

A. Inadequate review and approval of invoices

13. The roles and responsibilities of the Contracts Management Unit (CMU), Receiving and Inspection Unit (R&I) and Disbursement Unit as regards the payment review and approval process are not clearly defined and divided. CMU checks the accuracy of the quantities charged in the invoices. The Disbursement Unit checks only the mathematical accuracy of the invoice, i.e., quantity and unit price leading to the total amount. It could not check the validity of the price because it does not have a copy of the BOT contract. R&I, the unit that is supposed to verify the quantity being billed, only enters this information into the system. There is no unit that compares the amount being charged in the invoice with the contract.

14. With no one checking the validity of the invoice price, the over-charges made by BOT were not detected and stopped for over four years. The internal control system was designed with varying review levels for checking, certifying and approving payments. Although our tests of a representative sample of disbursement vouchers (DVs) showed evidence of approval as all were duly signed by the certifying and approving officers, those signatures were merely “rubber stamps” since a thorough review of the invoices was not performed.

Recommendations 1 and 2

The UNMIK Administration should:

- i. Define clearly the roles and responsibilities of the units involved in the processing of invoices (AP2005/650/05/01); and
- ii. Provide the Disbursement Unit with a copy of the BIS Oil Team contract, as well as all other contracts, to facilitate checking of invoice prices against the prices stipulated in the contract (AP2005/650/05/02).

15. *The UNMIK Administration accepted recommendation 1 and stated that the roles and responsibilities of the Contracts Management Unit, the Receiving and Inspection Unit, the Procurement Section and the Disbursement Unit have been clarified. Recommendation 1 remains open pending receipt of documentation from UNMIK showing that instructions concerning the new roles of the respective entities have been formally promulgated.*

16. *The UNMIK Administration also accepted recommendation 2 and stated that it had already been implemented. The Disbursements Unit has received copies of the BOT and other contracts, and a system has been established whereby the Unit will receive future invoices. Based on the Mission’s response, recommendation 2 has been closed.*

B. New DPKO procedure for invoice processing not fully implemented

17. To increase efficiency and ensure adequate segregation of functions, the Finance Management and Support Service (FMSS) on 26 October 2005 issued an instruction to discontinue immediately the practice of routing vendor invoices first through the Procurement or Travel Sections before forwarding them to the Finance Section. OIOS noted that the Procurement Section has started to include a clause in new contracts and some active ones stating that the supplier/contractor should submit the invoices directly to the Finance Section. However, other active contracts have not been amended yet.

Recommendation 3

The UNMIK Administration should fully comply with the Finance Management and Support Service instructions on routing vendor invoices directly to the Finance Section for payment processing by amending all active contracts to include a clause to enforce this procedure (AP2005/650/05/03).

18. *The UNMIK Administration accepted recommendation 3 and stated that the FMSS instructions had already been implemented. Any outstanding cases will be followed up, and a method of assuring compliance will be put in place to confirm that all invoices are directly received by the Finance Section. Recommendation 3 remains open pending receipt of documentation from UNMIK showing that an effective mechanism is in place to ensure that vendor invoices are directly received by the Finance Section.*

C. Additional charges made by BIS Oil Team not included in the contract

19. On 22 December 2000, BOT started to charge UNMIK for an extra sales cost of 1.8 Macedonian Denar or MKD/liter and gradually increased it to reach 3.2MKD/liter in 2005, which was not stated anywhere in the contract.

20. CMU only discovered the extra charge when they were reviewing invoices submitted for the month of May 2005 under the new contract and on 13 July 2005, informed the OIC, Procurement Section (through an Inter-office Memorandum IOM/CMU/RM/23) that the Supply Section was unable to process BOT fuel invoices for the month of May 2005 for \$281,323.75 due to the additional sales costs of \$53,127. In the same memorandum, CMU requested the Procurement Section to review the contract pricing mechanism with BOT and advise the Supply Section of the correct formula.

21. The Procurement Section consulted the Legal Advisor, who opined "UNMIK could take the position that the Contractor acted in bad faith. The fact that the Contractor simply added sales costs to the ex-refinery price several months after the conclusion of the 2000 Contract without notifying UNMIK in any form at any time about the addition and the fact that even in the calculation example of the 2005 Contract the Contractor used ex-refinery prices without the addition of the sales costs indicates that it acted in bad faith... From a legal standpoint the sales costs were improperly invoiced to UNMIK by the Contractor..." BOT, on the other hand,

claims that it has the right to charge UNMIK for the additional sales cost, in accordance with the Macedonian Government’s letter of confirmation. OIOS agrees with the Legal Advisor’s opinion. The Mission needs to avoid such ambiguity in prices by ensuring that contract provisions are clear and not susceptible to different interpretations.

Recommendation 4

The UNMIK Administration should ensure that contract prices are clearly stipulated in order to avoid ambiguity and potential losses to the Organization (AP2005/650/05/04).

22. *The UNMIK Administration did not accept recommendation 4 on the grounds that it would be “strategically unwise” to seek an amendment to the current contract with BOT. UNMIK proposes to have “an even more water tight” definition of the relevant clause in the next contract.* OIOS has considered the Mission’s response and revised recommendation 4 and its preceding paragraph above. This recommendation remains open pending receipt of documentation from UNMIK showing that it is being implemented.

D. Examination of BIS Oil Team’s invoices

23. On 25 November 2005, the OIC, DOA established a Financial Investigative Panel (the Panel), composed of three members from the Procurement, Finance and Supply Sections, to review all BOT invoices to determine precisely both the period and the dollar value of the alleged over-charges. The Panel reported that BOT had overcharged UNMIK \$2,220,161.62 for the period covered under the first fuel contract.

24. OIOS selected a representative sample of 20 (11%) out of 185 DVs and related invoices, recalculated the overcharges, and noted the following:

a. Invoice No. 1423 under DV No. 2-30-10538, covering the period 1 to 17 September 2002. OIOS’ comparison of the amount billed versus the correct amount per contract showed that the Panel underestimated the amount BOT overcharged for this invoice.

Quantity in Liters	Over-charge/liter as computed by		Total over-charges as computed by		Difference
	Panel	OIOS	Panel	OIOS	
136,978	\$0.045	\$0.0516	\$6,163.54	\$7,068.06	\$904.52

b. OIOS also found that BOT overcharged UNMIK for Invoice No. 1665, 1666, 1667, 1675, 1680, 1687, 1692 and 1693 under DV No. 1-30-02206, covering the period 22 to 31 December 2000, which the Panel overlooked:

Quantity in Liters	Over-charge/liter as computed by		Total over-charges as computed by		Difference
	Panel	OIOS	Panel	OIOS	
73,616	0	\$0.0271	0	\$1,993.96	\$1,993.96

204,724	0	\$0.0271	0	5,545.15	5,545.15
1,150	0	\$0.0283	0	32.55	32.55
27,392	0	\$0.0271	0	741.94	741.94
24,870	0	\$0.0271	0	673.63	673.63
26,387	0	\$0.0271	0	714.72	714.72
24,464	0	\$0.0271	0	662.63	662.63
2,224	0	\$0.0283	0	62.94	62.94
Total				\$10,427.52	\$10,427.52

Grand Total (a & b)	\$11,332.04
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c. Additionally, OIOS noted one invoice (No. 1122) under DV No. 5-30-03421 that did not include the necessary supporting documents, i.e., contractor's invoice and the official Gazette.

25. OIOS discussed the discrepancies noted in Exhibit 4 and 5 with the Panel, which acknowledged the accuracy of OIOS' re-computation. By adding \$11,332.04 (total of Exhibit 4 and 5) to the amount reported by the Panel, the amount that should be collected from BOT would be at least \$2,231,493.65. To date, the Mission has not recovered any amount from BOT.

Recommendations 5 and 6

The UNMIK Administration should:

- i. Immediately recover the overpayment of \$2,231,494 made to the BIS Oil Team (AP2005/650/05/05); and
- ii. Obtain the contractor's invoice and related official Gazette pertaining to disbursement vouchers previously paid and ensure that all disbursement vouchers submitted for processing in the future are supported by the prescribed documentation (AP2005/650/05/06).

26. *The UNMIK Administration accepted recommendation 5 and stated that the recoverable amount has been revised to \$2,093,022 after the Panel re-examined all the invoices for the whole period. Recovery action will be taken immediately. In the meantime, the Mission has retained a sum of \$227,134 from invoices since September 2005. The balance will be reduced by the amount of invoices held unpaid since February 2006. The value of invoices on hand for February and March 2006 amounts to \$978,152, and when April and May invoices are received and set-off against the amount due, the balance would be further reduced. BOT still maintains that it is entitled to the full amount of \$2,093,310, and the question of arbitration is looming. Recommendation 5 remains open pending receipt of documentation from UNMIK showing the final outcome of this case.*

27. *The UNMIK Administration accepted recommendation 6 and stated that Contracts Management Unit has been tasked to obtain the referenced documentation in order to support*

the vouchers previously paid, and to ensure that future invoices are properly documented. Recommendation 6 remains open pending confirmation by UNMIK that the missing documentation has been obtained from the contractor.

VI. ACKNOWLEDGEMENT

28. We wish to express our appreciation to the Management and staff of UNMIK for the assistance and cooperation extended to the auditors during this assignment.

Copy to: Mr. Jean-Marie Guéhenno, Under-Secretary-General for Peacekeeping Operations
Mr. Philip Cooper, Acting Director, ASD/DPKO
Mr. Lucien Chaker, OIC Administration, UNMIK
UN Board of Auditors
Programme Officer, OIOS
Ms. Maria C. Toguio, Chief Resident Auditor, UNMIK

UNITED NATIONS



OIOS Client Satisfaction Survey

Audit of: UNMIK's fuel contract with BIS Oil Team

(AP2005/650/05)

	1	2	3	4	5
By checking the appropriate box, please rate:	Very Poor	Poor	Satisfactory	Good	Excellent
1. The extent to which the audit addressed your concerns as a manager.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The audit staff's understanding of your operations and objectives.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Professionalism of the audit staff (demeanour, communication and responsiveness).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The quality of the Audit Report in terms of:					
• Accuracy and validity of findings and conclusions;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Clarity and conciseness;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Balance and objectivity;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Timeliness.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The extent to which the audit recommendations were appropriate and helpful.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The extent to which the auditors considered your comments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Your overall satisfaction with the conduct of the audit and its results.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please add any further comments you may have on the audit process to let us know what we are doing well and what can be improved.

Name: _____ Title: _____ Date: _____

Thank you for taking the time to fill out this survey. Please send the completed survey as soon as possible to:

Director, Internal Audit Division-1, OIOS

By mail: Room DC2-518, 2 UN Plaza, New York, NY 10017 USA

By fax: (212) 963-3388

By E-mail: iad1support@un.org