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INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION
OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. Edmond Mulet
A: Special Representative of the Secretary-General
MINUSTAH

DATE: 11 January 2007

REFERENCE: AUD-7-5:10 (07- 00009)

FROM: Dagfinn Knutsen, Acting Director
DE: Internal Audit Division, OIOS



SUBJECT: **OIOS Audit No. AP2005/683/11: Fuel management at MINUSTAH**

OBJET:

1. I am pleased to present herewith the final report on the above-mentioned audit, which was conducted during December 2005 to June 2006.

2. We note from your response to the draft report that MINUSTAH has accepted most of the recommendations. Based on your response, we have closed recommendations 2, 6, 14, 15, 16, 18 and 19 in the OIOS recommendations database. In order for us to close out the remaining recommendations (i.e., 1, 3 to 5, 7 to 13, and 17), we request that you provide us with the additional information as indicated in the text of the report. OIOS is reiterating recommendations 8 and 13 herein, and requests that you reconsider your initial response concerning these recommendations. Please note that the recommendation numbers in the final report may have changed based on revisions made as a result of your response to the draft report. In all future correspondence regarding these recommendations, please refer to the recommendation numbers concerned in the final report to facilitate monitoring of their implementation status. OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e. recommendations 2, 7, 8, 9, 10, and 11), 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 survey form.

4. I take this opportunity to thank the Management and staff of MINUSTAH for the cooperation and assistance extended to the auditors on this assignment

Copy to: Mr. Jean-Marie Guéhenno, Under-Secretary-General for Peacekeeping Operations
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Office of Internal Oversight Services

Internal Audit Division



Fuel management at MINUSTAH

Audit no: AP2005/683/11
Report date: 11 January 2007
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EXECUTIVE SUMMARY
Fuel management at MINUSTAH (Assignment No. AP2005/683/11)

OIOS conducted an audit of fuel management at the United Nations Stabilization Mission in Haiti (MINUSTAH) from December 2005 to June 2006. The main objective of the audit was to obtain reasonable assurance on the adequacy and effectiveness of controls over fuel management.

MINUSTAH depended on *ad hoc* arrangements for the supply of fuel, which did not ensure fuel quality, consistent delivery and cost reasonableness. Fuel quality control and fraud prevention tools and procedures were not fully implemented, primarily because the main contracts with fuel providers for the short-term supply of aviation fuel and long-term supply of ground fuel have not been formalized, and because MINUSTAH has not yet finalized the standard operating procedures for fuel management.

A number of irregularities occurred in the procurement of fuel for the Mission's short-term and long-term requirements. The confidentiality of bids received by the Mission was not preserved and, overall, the process lacked integrity. Best and Final Offers (BAFO) were requested for both bids although prerequisites for BAFO were absent. This was clearly to the advantage of a particular vendor in each case. OIOS noted that the Headquarters Committee on Contracts and the Controller have identified the irregularities in the award process and rejected the awards proposed by the Mission and Procurement Service for long-term ground and aviation fuel requirements.

Payments to vendors were not adequately supported. Documents necessary to justify payments were not transmitted to the Finance Section. Reconciliation was made difficult, if not impossible, in the absence of sufficient information originating from the vendors.

The bid for the short-term supply of fuel did not include a provision for the disposal of waste oil. This failure resulted in the Mission having to deal with a significant volume of waste oil.

TABLE OF CONTENTS

Chapter	Paragraphs
I. INTRODUCTION	1 - 6
II. AUDIT OBJECTIVES	7
III. AUDIT SCOPE AND METHODOLOGY	8
IV. AUDIT FINDINGS AND RECOMMENDATIONS	
A. Standard operating procedures and guidelines on fuel management	9 - 16
B. Contract management	17 - 37
C. Planning of fuel requirements	38
D. Payments to vendors	39 - 45
E. Continuity of fuel supply	46
F. Monitoring of fuel distribution and consumption	47 - 51
G. Fuel inventory management	52 - 56
H. Safety, security and environmental practices	57 - 59
V. ACKNOWLEDGEMENT	60

I. INTRODUCTION

1. OIOS conducted an audit of fuel management at the United Nations Stabilization Mission in Haiti (MINUSTAH) from December 2005 to June 2006. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. Table 1 shows the Mission's allotments and expenditures for petrol, oil and lubricants (POL) for the financial years 2004-05 and 2005-06:

Table 1: Allotments and expenditures (in \$'000) for POL for the years 2004-05 and 2005-06

Object Class, Code & Description	FY 2004-05		FY 2005-06	
	Allotment	Expenditure	Allotment	Expenditure
230/4213 – POL-facilities & infrastructure	\$7,449.9	\$2,142.9	\$5,944.6	\$5,898.9
230/4103 – Maintenance supplies -facilities & infrastructure	120.4	2,612.1	1,235.6	1,886.7
230/5321 – Acquisition of fuel tanks & pumps	569.5	959.9	5,249.1	3,398.4
231/5701 – POL-ground transportation	2,601.3	1,647.5	3,262.9	3,581.7
232/5724 – POL-air transportation	2,811.3	2,155.7	2,461.6	3,343.3
233/5726 – POL-naval transportation	50.1	0.0	0.0	21.5
238/4707 – Other miscellaneous services	0.0	62.5	5,298.7	2,623.3
238/5361 – Acquisition of other equipment	0.0	553.1	715.0	595.7
TOTALS	\$13,602.5	\$10,133.7	\$24,167.5	\$21,349.5

3. The Fuel Cell in MINUSTAH was established in November 2004, six months after mission inception. It comprises three sub-units: Operations, Contract Administration and Requisition, and Quality Control, Inspection and Fuel Fraud (QCIFF). As of December 2005, 11 of the 14 staff members composing the Fuel Cell were based in Port-au-Prince. There is one staff member in each of the three regions of MINUSTAH operations, responsible for fuel receipt, storage, issuance and related record keeping.

4. The Mission uses seven different POL products: diesel, gasoline, aviation fuel, kerosene, oil, lubricants and liquefied petroleum gas (LPG), which are supplied by seven different vendors under separate contractual arrangements resulting from two bids, as follows:

Table 2: Bid results for POL requirements

POL component	Bids for short-term fuel (TEN/MIN/04/01-May 2004)		Extension of short-term requirements	Bids for long-term fuel (RFP/05/027/RP-January 2005)	
	Vendor	Amount	Amount	Vendor	Amount
Ground fuel	DINASA	\$115,400	\$9,700,000	TOTAL	\$31,000,000

Aviation fuel	Texaco-Haiti**	190,000	4,800,000	Skylink*	22,000,000
Lubricants and oils	TOTAL	----		Jamagi	200,000
	Haitian Tractor	----		Haitian Tractor	3,700,000
Generators	SODIGAZ	----		SODIGAZ	1,000,000
Cumulative amounts			\$14,500,000		\$57,900,000

* Proposed award to Skylink was rescinded; new bidding was ongoing as of July 2006.

** Texaco-Haiti had an arrangement with the WFS Company to supply fuel to MINUSTAH, which met the Mission's short-term requirements for aviation fuel.

5. Fuel is required at MINUSTAH for 2,064 vehicles (873 UN-owned vehicles and 1,191 contingent-owned vehicles), 60 generators and 12 aircraft. Contractors distribute POL products to MINUSTAH in three ways: (a) to fuel stations which they own, (b) to contingent locations on UN managed sites, and (c) through direct refueling of generators. The latter is monitored by the Engineering Section, which provides monthly reports to the Fuel Cell. At the time of the audit, MINUSTAH was in the process of establishing a long-term turnkey contract for the supply of all fuel (including vehicle, generator, and UN managed bulk fuel tanks).

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

II. AUDIT OBJECTIVES

7. The objectives of the audit were to:

- (a) Assess the adequacy of controls over fuel management;
- (b) Verify MINUSTAH's compliance with the established rules, regulations, policies and procedures on fuel management;
- (c) Assess contractors' compliance with the fuel contract terms and provisions;
- (d) Ascertain whether there was adequate documentation supporting the ordering of fuel products, their receipt, distribution and utilization, and fuel balances on hand to obtain reasonable assurance that there was no loss to the Organization through mismanagement, abuse, theft or other undesirable practices;
- (e) Ascertain whether the Mission's health, safety and environmental practices as regards fuel operations were in compliance with the established UN and country rules; and
- (f) Determine whether there was a plan to ensure the continuity of fuel supply to the Mission in case of contingencies.

III. AUDIT SCOPE AND METHODOLOGY

8. The audit covered the management of POL for ground and air transportation and generators, and involved file reviews, site visits and interviews with key Mission personnel as well as contractor's personnel and contingents. Physical verification and reconciliation of POL inventories, and tests of transactions were performed on a sample basis. OIOS also analyzed the distribution and consumption of POL at the Mission.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Standard operating procedures and guidelines on fuel management

Quality control and fraud prevention measurement tools

9. As of May 2006, MINUSTAH has not yet finalized its draft standard operating procedures (SOP) for fuel management, prescribing the (a) processes, (b) expected levels of performance of vendors, contingents and UN staff, and (c) risk management strategies. MINUSTAH explained that the delay in finalizing the SOP was caused by delays in the establishment of a turnkey fuel contract¹ and the implementation of an electronic fuel accounting system. In OIOS' view, the finalization of the SOP should not be dependent upon the implementation of these projects.

Recommendation 1

The MINUSTAH Administration should finalize and issue the Standard Operating Procedures for fuel management as soon as possible to facilitate the implementation of controls over fuel contracts and operations (AP2005/683/11/01).

10. *The MINUSTAH Administration accepted recommendation 1 and stated that all SOPs have been issued in draft form to contingents. All logistics officers and their staff had been fully briefed on the SOPs, including quality assurance, at the Fuel Conferences held on 14 December 2005 and 27 December 2006.* OIOS acknowledges that the SOPs have been issued in draft. Recommendation 1 remains open pending receipt of copies of the SOPs in their final form.

11. The Fuel Cell's draft SOP describes the procedures for the control of fuel quality and quantity, and measurement tools in order to prevent fuel losses. OIOS found the following weaknesses in the implementation of these procedures:

- The Mission acquired fuel testing kits only in June 2005, a year after its inception;
- For aviation fuel, the Mission did not fully apply the SOP on quality control and fraud prevention because MINUSTAH's fuel supply arrangements with Texaco-Haiti were being implemented by another company, WFS, under an arrangement between the two companies. Since MINUSTAH had no contractual relationship with WFS, it was not legally permitted to access the WFS depot to test the fuel; and
- There was no timetable or plan for regular quality control checks by the Fuel Cell.

¹ Turnkey fuel contract is an outsourced contract that requires the Contractor to manage, construct fuel sites, hire and train local staff, establish a distribution system and provide all required POL in support of a mission. In addition, the Contractor is required to provide other associated POL services including waste fuel disposal. In summary, the UN pays for fuel only after they have been delivered into a vehicle or generator. It should be noted that there may be a requirement for the contractor to hold a strategic reserve which may be paid for up front. The turnkey contract being negotiated for MINUSTAH is based on a contract drawn up for the United Nations Mission in Kosovo.

12. Eight types of fuel fraud prevention and quality control kits were available at the Fuel Cell, including shell water detector, waterfinder paste, bug test kit, thermometer, den, hydrometer, sample jars, measuring cylinder and hydro kit. However, only the shell water detector and waterfinder paste were distributed to fuel receiving locations such as battalion locations and regional administrative offices. The Fuel Cell explained that the other fuel kits were not distributed to the contingents because most of the kits are breakable and the contingents would need extensive training in order to learn how to use them. Furthermore, the contingents are rotated every six months. OIOS is of the view that all quality control kits should be made available to fuel locations and sufficient training given to military fuel control staff to operate the kits. This is important considering the numerous discrepancies noted during the Fuel Cell's October 2005 inspection visit to battalion locations. In this respect, OIOS noted that the Fuel Cell did not follow up on the inspection visits to ensure that control weaknesses were corrected.

Recommendations 2 and 3

The MINUSTAH Administration should:

- (i) Distribute testing kits to all fuel locations and ensure that personnel are adequately trained to operate the kits (AP2005/683/11/02); and
- (ii) Ensure that control weaknesses identified during inspection visits are corrected and recommendations for improvement are implemented by responsible personnel (AP2005/683/11/03).

13. *The MINUSTAH Administration partially accepted recommendation 2, stating that fuel testing kits will continue to be issued to the aviation fuel teams in the field. However, with regard to ground fuel, the Mission stated that the sites were being operated by contingent personnel who are not fuel experts, and that training them in fuel density monitoring processes and conversions is unrealistic, given the rotation period of six months. However, contingents using ground fuel will continue to receive basic testing kits.* Based on the Mission's response, recommendation 2 has been closed.

14. *The MINUSTAH Administration did not accept recommendation 3, stating that requests for additional staff to carry out this essential work were rejected. As a result, the Mission will be pursuing the introduction of independent testing using a third party contractor and, where practical, international individual contractors.* OIOS reiterates that the control weaknesses and improvement opportunities identified during the Fuel Cell's inspections should be addressed. Recommendation 3 remains open pending receipt of documentation from MINUSTAH showing that it has been implemented.

Certificates of quality

15. The draft SOP on aviation fuel handling and quality control states that vendors should provide the Fuel Cell with the product Certificate of Quality before physically transferring fuel from the delivering road fuel tanker. The Fuel Cell is responsible for following up on the submission and

record keeping of Certificates of Quality. Also, the vendor should provide Fuel Cell personnel with copies of any other quality control documents as may be requested from time to time. OIOS found that the Mission did not receive from vendors such certificates or other documents attesting to the quality of fuel. The Fuel Cell explained that in the absence of formal contracts with vendors, it was difficult to enforce quality control requirements.

Recommendation 4

The MINUSTAH Administration should require fuel vendors to provide Certificates of Quality for all aviation fuel delivered to the Mission, in accordance with the standard operating procedures on aviation fuel handling and quality control (AP2005/683/11/04).

16. *The MINUSTAH Administration accepted recommendation 4 and stated that certificates of quality are requested from the vendor's subcontractor Texaco for all aviation fuel delivered into bulk tankers. However, in the absence of a formal contract, it has been difficult to enforce this requirement on a regular basis. This issue will be resolved with the finalization of a formal contract for ground fuel.* Recommendation 4 remains open pending receipt of documentation from MINUSTAH showing that it has been implemented.

B. Contract management

Fuel acquisition approach

17. DPKO's approach for the acquisition of fuel for MINUSTAH was to start with short-term contracts (one-month renewable periods), followed by long-term contracts (2 to 3 year periods) once the Mission's requirements could be determined more accurately. Multiple awards were made as a result of the two separate invitations to bid for short-term and long-term fuel acquisitions, as shown in Table 2.

18. The bidding process for long-term fuel acquisition was not initiated until January 2005. The Mission therefore depended on *ad hoc* arrangements such as the one for ground fuel for which no written contract existed. These conditions did not guarantee fuel quality, consistent delivery and cost reasonableness. For example, Texaco-Haiti threatened to stop deliveries unless MINUSTAH agreed to the payment terms that it unilaterally decided. Last minute resolutions of such crises have created avoidable uncertainty in MINUSTAH operations. The Mission Administration explained that the high vacancy rates in the Procurement Section caused the delay in entering into stable, long-term arrangements for the supply of fuel. OIOS is concerned that three P-3 posts in the Procurement Section remained vacant, hence, we reiterate recommendation AP2004/683/02/02 on increasing the Mission's efforts to fill the vacant posts (Ref.: 11 August 2005 report on OIOS Audit No. AP2004/683/02: Procurement activities in MINUSTAH).

Award for long-term ground fuel requirements

19. RFP/05/027/RP for long-term fuel requirements was issued on 29 January 2005. By the deadline of 21 March 2005, three proposals were received from TOTAL, DINASA and Skylink

Aviation, Inc. The technical evaluation team found DINASA’s proposal to be technically non-compliant because DINASA had failed to submit a mobilization plan as required by the RFP. Also, the evaluation of financial bids showed that TOTAL offered a much lower price offer than DINASA and Skylink. Therefore, TOTAL should have won the bid. However, the Procurement Section decided that all three bidders, including DINASA, should be requested to submit a best and final offer (BAFO), based on a decrease in the required quantity of fuel from 32.4 million litres per year to 20.2 million litres per year.

20. The BAFO exercise conducted by MINUSTAH for RFP/05/027/RP did not meet any of the prerequisites for a BAFO as stipulated in the Procurement Manual, i.e. “...the Procurement Officer may decide to engage in competitive negotiations with a sufficient number of qualified proposers that have a reasonable chance for award, to ensure effective competition.” The Procurement Section, in a document titled “Overall evaluation of proposals”, recommended a BAFO “in order to obtain fair competition between proposers, which would be in the interest of the Organization”, with reference to the 3 May 2005 statement by the technical evaluation team that “DINASA’s proposal should reasonably be made acceptable if the company demonstrates mobilization details at no additional cost to MINUSTAH”. DINASA benefited from this decision because a technically non-compliant bidder is normally not invited to submit a BAFO.

21. OIOS found indications that DINASA may have benefited from insider information. In its response to the BAFO exercise, DINASA offered the required mobilization arrangements at no additional cost to MINUSTAH, exactly as stated by the technical evaluation team when they proposed the BAFO. Furthermore, as shown in Table 4, DINASA became the lowest bidder because it decreased its unit prices by between \$0.0171 and \$0.0392 while TOTAL added \$0.0159 per unit to make up for the decrease in the required quantity from 32.4 million litres per year to 20.2 million litres per year. The Local Committee on Contracts (LCC) endorsed the Procurement Section’s proposal to award the contract to DINASA because the vendor’s proposal was technically qualified and the lowest bid (LCC MIN/34/2005 dated on 15 June 2005).

Table 4: Ranking of bids

Vendor	Initial RFP- bid amount & rank		BAFO-revised bid amount & rank	
TOTAL	\$ 9,054,199.00	Lowest	\$ 8,733,019.00	2 nd lowest
DINASA	\$ 9,152,123.40	2 nd lowest	\$ 8,727,130.20	Lowest

22. The Procurement Section’s case presentation to the LCC, which was subsequently transmitted by the Procurement Service to the Headquarters Committee on Contracts (HCC), stated that DINASA and TOTAL did not change their price in response to the BAFO. The HCC (minutes of HCC/05/45 dated 19 July 2005) however pointed out that the price did change, which made DINASA the lowest bidder. The HCC was also of the opinion that inviting a technically non-compliant bidder to submit a BAFO was not acceptable and, instead of an award to DINASA, recommended that the contract be awarded to TOTAL. In addition, the Controller requested the Chairman of the HCC by note dated 5 August 2005 to remind the Chief Procurement Officer of MINUSTAH “to adhere to the procurement rules and that no vendor should be given any preferential treatment”. The Chief Procurement Officer of MINUSTAH informed OIOS that he had not received such letter.

23. OIOS recommended that the MINUSTAH Administration should investigate and address accountability for the irregularities in the procurement action relating to the supply of long-term ground fuel. *The MINUSTAH Administration did not accept this recommendation, stating that the decision to obtain BAFO was based on the unanimous decision made by the Tender Evaluation Committee (TEC), in conformity with the provisions of the Procurement Manual, and in the best interests of the Organization. Consideration of TOTAL's proposal as a sole proposal, since the current provider DINASA's proposal was deemed technically non-compliant due to non-submission of a mobilization plan, would not have been in the best interest of the Organization.*

24. OIOS notes that DINASA had been the Mission's fuel provider, and had demonstrated that it had the necessary capacity to supply fuel in the Mission area. Therefore, rather than declaring DINASA's proposal as technically non-compliant on grounds that this vendor did not provide a mobilization schedule, the Mission should have asked the vendor to provide the missing information (i.e., mobilization schedule) in accordance with paragraph 10.3.3 (c) of the Procurement Manual ("failure of prospective vendor to furnish data/information"). According to paragraph 10.3.3 (c) (ii), it is the responsibility of Procurement to "request from the prospective vendor, the missing information. Furthermore, paragraph 10.3.3 (c) (i) states that this failure "shall not require immediate rejection of the submission...". The Mission's failure to do so, and its subsequent request for BAFO from the vendor who had previously been declared technically non-compliant, were clearly in violation of the provisions of the Procurement Manual. OIOS is therefore unable to accept MINUSTAH's assertion that the BAFO exercise was conducted in accordance with the provisions of the Procurement Manual. A new recommendation (AP2005/683/11/05) is being issued as shown below, and OIOS requests that MINUSTAH confirm its actions to implement this recommendation.

Recommendation 5

The MINUSTAH Administration should ensure that the Procurement Section, in accordance with the provisions of the Procurement Manual: (a) stops the practice of immediately rejecting proposals on grounds that essential information has not been provided by a vendor; (b) makes a reasonable effort to obtain any missing information; and (c) stops the practice of inviting technically non-compliant vendors to submit Best and Final Offers (AP2005/683/11/05).

Recommendation 6

The MINUSTAH Administration should determine why there was a breakdown in communication between the Headquarters Committee on Contracts and the Mission (AP2005/683/11/06).

25. *With regard to recommendation 6, the MINUSTAH Administration stated that a number of factors contributed to delays in the processing of cases through the Procurement Service, such as: (a) the sudden change in leadership at the Procurement Service which may have led to gaps in information during the handling of pending cases; (b) the Controller's new policy to process ex post*

facto cases through the Office of the Assistant Secretary-General/DPKO, which was applied retroactively in some cases; and (c) the process of explaining complex cases to the Procurement Service, including the ground realities, local market conditions and operational importance of certain decisions, which were time consuming. Based on the Mission's explanations, recommendation 6 has been closed.

Award for long-term aviation fuel requirements

26. OIOS could not determine how many prospective vendors were invited to submit a proposal for the supply of aviation fuel since the RFP was inclusive of all other fuel components, as shown in Table 3. By the RFP-stated deadline of 21 March 2005, only one proposal, from Skylink Aviation, Inc, was submitted for aviation fuel. Skylink indicated that it had formed a consortium with AMA Spa Italy, WFS and Texaco-Haiti. The first two companies confirmed their participation in the consortium but Texaco-Haiti did not.

27. As noted by the MINUSTAH Procurement Section, the price offered by Skylink was very high as compared to those offered by Texaco-Haiti (the short-term aviation fuel provider), and WFS (the Texaco subcontractor which was also supplying aviation fuel to the Mission). Skylink proposed a unit price 18 per cent higher than the WFS actual price and 58 per cent higher than the Texaco price. Skylink also included in its offer \$1.9 million in mobilization costs and five per cent of an unspecified amount of variable costs to cover administration, shipping of equipment, site preparation and interest for late payment. The cost of equipment was 33 per cent higher than that obtained for the same equipment through the UNHQ system contract with AMA Spa of Italy, one of the Skylink consortium members.

28. In the related LCC meeting (LCC MIN/2005/87 of 6 June 2005), the MINUSTAH Procurement Section expressed its concern over the risk of possible collusion between the vendors resulting from the consortium and stated that Skylink's proposal was very high. Despite its concerns, the Procurement Section did not plan to re-bid the requirements but proposed to the LCC that the Mission negotiate with Skylink for better terms. In fact, the Section had already, as of 1 June 2005, concluded a BAFO for this purpose, which was however unsuccessful because Skylink did not change its offer.

29. The LCC and HCC endorsed MINUSTAH's proposal for a negotiated contract with Skylink, while raising some concerns over MINUSTAH's capability to carry out a large and complex bidding exercise and the regularity of a BAFO involving a sole bidder. However, the Controller, in a 31 August 2005 memo attached to the HCC minutes number HCC/05/47, rejected the HCC recommendation because (a) local procurement authority had not been granted to MINUSTAH for aviation fuel, and (b) the bid had resulted in sole sourcing at a price considered excessively high. The Controller requested the NY Procurement Service to conduct a new bidding exercise based on specifications vetted by DPKO. MINUSTAH informed OIOS that, as of July 2006, bids were received by the NY Procurement Service and DPKO has requested the MINUSTAH Fuel Cell to assist with technical evaluation. OIOS is satisfied that the Controller exercised appropriate control over this procurement.

Unsigned contract for short-term supply of aviation fuel

30. While procurement for the long-term supply of aviation fuel is underway, the Mission's short-term requirements are being met by WFS. From June to 28 September 2004, Texaco-Haiti used to supply the Mission with aviation fuel. From 29 September 2004 to July 2006, WFS has been delivering aviation fuel to the Mission. However, neither Texaco-Haiti nor WFS has signed a contract for this short-term arrangement.

31. In its presentation to the LCC (LCC MIN/15/2005; 6 January 2005), to regularize the arrangements with WFS, the MINUSTAH Procurement Section indicated that "WFS has assured (the Mission) that it will offer the same or better rates than Texaco-Haiti..." and that WFS has "extensive experience in supplying fuel to large organizations such as the UN." Both the LCC and HCC endorsed the procurement action. The LCC cited Financial Rule 105.16 (a), i.e., no competitive market place exists and prices are fixed by legislation or government regulation, as the basis for recommending the award to WFS.

32. However, OIOS found that WFS has been charging much more than the rate fixed by the Government of Haiti. Also, according to the Fuel Cell, WFS unit prices exceeded Texaco-Haiti's rates by up to 40 per cent, and totaled \$513,364 for the period from July 2005 to February 2006, or a monthly average of \$64,170. Applying this monthly average over the period from October 2004 to June 2005 (\$577,530), OIOS estimated that fuel deliveries by WFS, instead of Texaco-Haiti, resulted in a total additional cost of \$1.1 million for the period WFS has supplied the Mission.

33. There is a need to expedite the completion of the procurement action for the long-term supply of aviation fuel, to ensure that (i) the Mission gets the most economical and competitive price, and (ii) the Mission's air operations are not disrupted.

Recommendations 7 and 8

The MINUSTAH Administration should:

- (i) Request the Procurement Service in New York to expedite the completion of the procurement action for the long-term supply of aviation fuel (AP2005/683/11/07); and
- (ii) Investigate whether there is a basis to recover the charges paid to WFS in excess of the Texaco-Haiti's rates (AP2005/683/11/08).

34. *The MINUSTAH Administration accepted recommendation 7 and stated that the Mission has followed up with UN Headquarters for the early conclusion of a long-term supply contract for aviation fuel and will continue to pursue the matter until the contract is finalized. Recommendation 7 remains open pending receipt of a copy of the signed contract from MINUSTAH.*

35. *The MINUSTAH Administration did not accept recommendation 8, stating that: (a) the Mission does not believe it has paid excessively for aviation fuel; (b) the cost charged by WFS is*

slightly higher as compared with international market rates which are closely monitored by the Supply and Procurement Section; and (c) the situation is dictated by the local market conditions which, in the case of aviation fuel, is totally monopolistic. OIOS does not agree with this response because WFS' unit prices exceeded Texaco-Haiti's rates not "slightly" but by up to 40 per cent, which worked out to \$513,364 for the period July 2005 to February 2006. This amount is significant, and in OIOS' opinion, the Mission should determine whether there is a basis to recover the charges paid to WFS in excess of Texaco-Haiti's rates. Recommendation 8 is therefore reiterated for MINUSTAH's further action and remains open pending receipt of documentation from MINUSTAH showing that it has been implemented.

Absence of performance bonds

36. Without a signed contract, the Procurement Section has not obtained performance bonds from the vendors, although in the RFPs for short-term and long-term fuel requirements performance bonds were requested at 5 and 10 per cent of the total contract price, respectively. Table 5 shows a potential exposure of \$1.34 million due to the absence of performance bonds from the fuel vendors.

Table 5: Absence of performance bond

Component	Vendor	Contract value	Performance bond
Aviation Fuel	Texaco/WFS	\$4.8 million	\$0.480 million
Ground Fuel	DINASA	9.7 million	0.485 million
Lubricants	Haytian Tractor	3.7 million	0.370 million
TOTALS		\$18.2 million	\$1.335 million

Recommendation 9

The MINUSTAH Administration should obtain all the required performance bonds from fuel vendors as soon as the contracts are finalized and signed by both parties (AP2005/683/11/09).

37. *The MINUSTAH Administration accepted recommendation 9 and stated that the Mission intends to enforce the performance bond provision as soon as the contracts are let by the Procurement Service, New York.* Recommendation 9 remains open pending receipt of documentation from MINUSTAH showing that it has been implemented.

C. Planning of fuel requirements

38. The planning of fuel requirements had been addressed in another OIOS report, i.e., the "Comprehensive management review of DPKO – Procurement" (OIOS Audit No. AP2005/600/20), specifically in recommendations 18 and 19.

D. Payments to vendors

Ground fuel

39. The Finance Section could not match three payment vouchers, pertaining to purchase orders 4-20-00035, 5-20-00424 and 5-20-00424, in the amount of \$1 million with delivery notes submitted by DINASA. The Fuel Cell maintains the requisitions and delivery notes separately from the related invoices, purchase orders, R&I report and payment requests, which are kept by the Finance Section. The Mission explained that the Fuel Cell keeps the delivery notes because it is the unit responsible for the verification of price and quantity. In OIOS' view, all documents necessary to support payments should be transmitted to and kept by the Finance Section.

Aviation fuel

40. During the period July 2004-July 2005, eighteen payments for aviation fuel totaling about \$1.9 million were processed based only on verification reports provided by the Fuel Cell Accounting Assistant, without the original supporting documents such as fuelling tickets. The Fuel Cell accepted the WFS ticket summary sheet as long as they showed the signature of the Air Operations Officer receiving the fuel. This practice, in OIOS' view, created room for duplication of payments and fraud.

41. OIOS reviewed 587 invoices submitted by WFS and found that in 542 cases, with a cumulative value of about \$1.8 million, the Texaco-Haiti fuelling tickets did not show the cost of fuel uplifted. In the remaining 45 cases (totaling \$22,000), the amounts charged by Texaco-Haiti differed from the amounts claimed in the invoice submitted by WFS. The Procurement Section explained that, in the absence of a formal contract with WFS, no explanation or follow-up could be made on price differences. Also, some of the fuelling tickets were manually pre-numbered by Texaco-Haiti. This created an opportunity for the submission or processing of duplicate invoices to support a request for payment.

42. OIOS found that documentation supporting a paid payment voucher (number 5-30-05448) in the amount of \$152,829.77 had been missing. In another case, it took the Fuel Cell and Finance Section three months to discover that a payment in the amount of \$26,838.59 was processed twice. The first payment was made in December 2004 under payment voucher number 4-30-12211, without going through any verification by the Fuel Cell and without an R&I report. The Mission explained that the Chief Procurement Officer had forwarded copies of invoices, with notation that they should be treated as originals, directly to the Finance Section to expedite the payment since WFS was threatening to stop fuel delivery because of late payments. The second payment was made on 12 January 2005 under payment voucher number 5-30-01151 upon receipt of original documents from the vendor.

Generator fuel

43. The Finance Section effected total payments of \$631,577 for the period June 2004 to June 2005. These payments were based exclusively on the verification reports prepared by the Engineering Section, and were not supported by delivery notes/credit sales receipt coupons.

Delivery notes/credit sales coupons were kept at the Engineering Section, although they are the source documents to verify actual receipt of fuel into generators. Furthermore, the delivery notes/credit sales coupons were of faded carbon copies and sometimes illegible.

Recommendations 10 to 13

The MINUSTAH Administration should:

- (i) Ensure that all payments are supported by original and completely filled out fuelling tickets or delivery notes from all fuel vendors (AP2005/683/11/10);
- (ii) Ensure that the Finance Section maintains all documentation supporting payments for fuel (AP2005/683/11/11); and
- (iii) Request all fuel vendors to periodically confirm the quantity and value of fuel delivered to the Mission, payments made and outstanding, and reconcile any discrepancies with Mission records (AP2005/683/11/12); and
- (iv) Request all fuel vendors to submit invoices with preprinted serial numbers to ensure an audit trail and integrity of the documents (AP2005/683/11/13).

44. *The MINUSTAH Administration accepted recommendations 10, 11 and 12 and stated that they had been implemented.* Recommendations 10, 11 and 12 remain open pending receipt of documentation from MINUSTAH showing that the internal controls recommended have been implemented.

45. *The MINUSTAH Administration did not accept recommendation 13, stating that fuel vendors have indicated that they are not in a position to provide preprinted serial numbers.* The use of preprinted invoice serial numbers is an internal control that establishes an audit trail and enhances the integrity of the documents. In OIOS' opinion, the Mission should persuade its fuel vendors to implement this control measure. OIOS reiterates recommendation 13, which remains open pending receipt of documentation from MINUSTAH showing that it has been implemented.

E. Continuity of fuel supply

46. MINUSTAH is operating in an environment of uncertain supply chains and broken down fuel supply infrastructure. MINUSTAH's fuel contingency plan ensures continuity of operations for 45 days of fuel supply. Fuel has been stored as reserve in bladders installed in all contingent locations in addition to fuel stored in Contingent-Owned Equipment. The Fuel Cell also operates an emergency strategic reserve in case of prolonged failure, and it is envisaged to increase the capacity of bladder storage and vehicle fuel dispensing points (VDPs) through the establishment of a new fuel operations site, which at the time of the audit was still under construction. OIOS will follow up developments in this area.

F. Monitoring of fuel distribution and consumption

Generator fuel management

47. As of December 2005, MINUSTAH had 60 generators, which were re-fuelled by vendor trucks based on work orders raised by the Fuel Cell. However, the Generator Unit of the Engineering Section did not maintain fuel log sheets for each generator to document fuel consumed, number of work hours and capacity, except for the seven generators located within MINUSTAH Headquarters and the logistics base. The use of log sheets started in June 2005 and only for the seven generators located at the Mission HQ and logistics base, a year after the mission inception, when the Mission has already consumed around \$1 million worth of generator fuel.

Recommendation 14

The MINUSTAH Administration should ensure that the Engineering Section maintains log sheets for all generators, documenting fuel consumed, number of work hours and capacity of each generator (AP2005/683/11/14).

48. *The MINUSTAH Administration accepted recommendation 14 and explained that log sheets have been introduced for all UN- and contingent-owned generators. Contingents are frequently briefed at Fuel Logistic Officer conferences which are held every six months.* Based on the Mission's response, recommendation 14 has been closed.

Fuel-Log system

49. OIOS found the Mission's procedures to monitor the consumption of fuel by vehicles and aircraft to be generally satisfactory. To make the process more efficient and effective, the Mission is planning to implement the Fuel-Log system for vehicles.

50. Fuel-Log is a computer-based solution designed for independent fuel pump systems that works only with an authorized magnetic card. If implemented properly, this automated fuel management system would provide Management with a tool to monitor and control fuel dispensed into vehicles. Drivers can only refuel if their access is approved by the system. Data retrieval is effortless and automatic. Fuel analyses and reports can be generated per vehicle, pump, operator, date, time and quantity. Each vehicle equipped with CarLog has a fuel ring with a serial number in order to monitor its fuel consumption.

51. The requisition for Fuel-Log was raised on 8 December 2005 and as of March 2006, only 15 units of fuel logs have been received in MINUSTAH's warehouse, five of which were issued to the Transport Section. The Fuel-Log system will be implemented upon the finalization of the turnkey fuel contract, currently in the procurement process. OIOS will follow up developments in this area.

G. Fuel inventory management

Physical inventory at the Uruguayan Battalion's location

52. OIOS visited the Uruguayan Battalion in November 2005 and found discrepancies between the physical inventory of oil and lubricants, and quantities recorded, as shown in Table 6. OIOS could not perform a similar check for diesel due to the absence of fuel measuring kits. In the absence of measurement tools, the contingents were not able to maintain a real time inventory record and to reconcile the actual quantity in stock with fuel vendor's receipts.

Table 6: Results of physical inventory at the Uruguayan Battalion location (in litres)

POL Product	Report	Count	Discrepancy
Distilled water	203	216	13
Brake Fluid	86	88	2

Recommendations 15 and 16

The MINUSTAH Administration should:

- (i) Conduct a 100 per cent count of all POL products and adjust the recorded balances in accordance with the count, to facilitate the accurate recording and management of POL inventories (AP2005/683/11/15); and
- (ii) Investigate any significant discrepancies between POL quantities recorded and counted (AP2005/683/11/16).

53. *The MINUSTAH Administration accepted recommendation 15 and stated that the Mission has already implemented fraud prevention inspections at its fuel sites to identify shortfalls and to act on them. The MINUSTAH Administration also accepted recommendation 16 and stated that it has established a Fuel Fraud Prevention Cell within the Fuel Cell which has been highly successful. One major fuel fraud was identified and an investigation was immediately requested, thus preventing more extensive fraud which could have resulted if such intervention had not been made. Based on the Mission's response, recommendations 15 and 16 have been closed.*

Fuel stored at the Chilean Battalion's location

54. At the Chilean Battalion Engineering Unit's location, OIOS noticed that many fuel drums owned by the European Economic Commission were stored next to MINUSTAH POL stocks in the same location. Documentation provided to OIOS by the Fuel Cell showed that this is part of an agreement dated 17 December 2004 between the Haitian Government, MINUSTAH and the European Economic Commission for the construction of a railroad by the Chilean Battalion Engineering Unit. According to the agreement, and as stated in a correspondence dated 3 March 2005 to MINUSTAH, the European Economic Commission was supposed to provide POL or cash in return for the Chilean Engineering Unit's work for the railroad project. The storekeeper was not

able to confirm whether the fuel drums identified by OIOS were part of the European Economic Commission's compensation or were just being stored for future purposes. The Fuel Cell stated that the Commander of the Chilean Battalion Engineering Unit had no direct knowledge about this matter. He also said that the European Economic Commission had given approximately 10,000 liters of diesel to MINUSTAH for road work projects in the North of Haiti. However, neither the cost nor utilization plans were available; some of the POL product stocks provided by the European Economic Commission had been distributed internally to the contingent.

Recommendation 17

The MINUSTAH Administration should clarify the status of implementation of the Mission's agreement with the European Economic Commission for road work and railroad projects, and the ownership of the fuel stocks stored at the Chilean Engineering Contingent location. MINUSTAH fuel records should be adjusted accordingly (AP2005/683/11/17).

55. *The MINUSTAH Administration accepted recommendation 17 and stated that the Mission has identified European Union-provided fuel stocks and is in the process of introducing the necessary controls to ensure segregation of records. Recommendation 17 remains open pending receipt of documentation from MINUSTAH showing that it has been fully implemented.*

Adjustment of physical balances of fuel

56. In October 2005, the Chief Administrative Officer introduced a mechanism to adjust fuel discrepancies, which stipulates percentage allowances and guidelines on stock adjustment. OIOS was informed that all fuel discrepancies were recorded in the related inspection sheets and in the form of a report, and that no discrepancies were found exceeding the allowed percentage, except in two cases. These instances were reported to the Security Section and write-off procedure is pending completion of investigations. OIOS will follow up on the results of the investigations and actions taken by Management.

H. Safety, security and environmental practices

57. The tender for short-term fuel (TEN/MIN/04/001) did not include provision for the disposal of waste oil. As a result, the Mission has to handle the disposal of piles of hazardous waste, including contaminated fuel and oil. In the bid for long-term fuel (RFP/05/02/027/RP), there was a relevant provision for the disposal of waste.

58. OIOS found several items of correspondence evidencing MINUSTAH's attempts to address this environmental problem. The Procurement Section informed OIOS that it was processing the requirement for the disposal of waste but was yet unable to give the time frames for actual disposal.

Recommendations 18 and 19

The MINUSTAH Administration should:

- (i) Ensure that all tenders for POL products include appropriate provision for the disposal of oil waste (AP2005/683/11/18); and
- (ii) Expedite the procurement of the oil waste disposal services contract (AP2005/683/11/19).

59. *The MINUSTAH Administration accepted recommendations 18 and 19 and stated that since May 2006, the Mission has already disposed of 16,445 gallons of used oil through three Bills of Sale. The disposal process will continue as the stock piles up. Based on the Mission's response, recommendations 18 and 19 have been closed.*

VI. ACKNOWLEDGEMENT

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



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Internal Audit Division, OIOS

UNITED NATIONS



OIOS Client Satisfaction Survey

Audit of: Fuel management at MINUSTAH

(AP2005/683/11)

	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:
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