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TO:
A:
Mr. William Lacy Swing
Special Representative of the Secretary-General
MONUC

DATE: **8 August 2005**

00045

REFERENCE: AUD-7-5:7 (__/05)

FROM:
DE:
Patricia Azarias, Director
Internal Audit Division I, OIOS

SUBJECT:
OBJET: **OIOS Audit No. AP2005/620/11: Fuel Management in MONUC**

1.   I am pleased to present herewith our final report on the audit of the above subject, which was conducted during the period January to March 2005.

2.   Based on your response, we have closed recommendations 3 and 20 in the OIOS recommendations database. In order for us to close the rest of the recommendations, we request that you provide us with additional information as indicated Annex I of the report and a time schedule for their implementation. OIOS is reiterating recommendation 12, and requests that you reconsider your initial response concerning the recommendation. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical, i.e., recommendations 1, 2, 4, 6, 9, 12 and 22, 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.

4.   I take this opportunity to thank the management and staff of MONUC for the assistance and cooperation provided to the auditors in connection with this assignment.

Copy to: Mr.Jean-Marie Guéhenno, Under-Secretary-General for Peacekeeping Operations
Ms. Hazel Scott, Director, ASD/DPKO
Mr. Marcel Savard, Director of Administration, MONUC
UN Board of Auditors
Programme Officer, OIOS
Mr. Dagfinn Knutsen, Chief, Peacekeeping Audit Service, IAD-I/OIOS
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Office of Internal Oversight Services

Internal Audit Division I

Fuel Management in MONUC

Audit no: AP2005/620/11
Report date: 8 August 2005
Audit team: Kasonde Mwenya, Auditor-in-Charge

EXECUTIVE SUMMARY
Fuel Management in MONUC (AP2005/620/11)

OIOS conducted an audit of fuel management in the United Nations Organization Mission in the Democratic Republic of the Congo (MONUC) during January - March 2005. The main objectives of the audit were to obtain reasonable assurance that: (i) contract terms with fuel vendors are complied with; (ii) Standard Operating Procedures (SOPs) for fuel operations are complied with; (iii) fuel stocks as per underlying records exist; and (iv) business continuity and disaster recovery plans are in place for fuel operation.

The audit covered the period 2002 - 2004 and involved audit of payments of about $107 million. The audit was at Kinshasa, Kisangani, Lubumbashi, Kigoma, and Entebbe.

The fuel operation at MONUC is large and complex. It involves procurement of fuel from three main vendors and distribution from 14 locations. Given the size of the operation and the fact that the Mission had generally a consistent supply of fuel for all its operations, its Fuel Unit was managing the function satisfactorily. However, OIOS noted some weaknesses in internal controls as summarized below:

- The Fuel Unit did not have uniform SOPs for all units and all functions.

- The Mission had paid $639,741 in duties to two fuel vendors and was trying to obtain a refund from the Government of Uganda.

- There was no system of routine independent stock takes to confirm the existence of fuel as per underlying records in Kinshasa, Kisangani and Kigoma.

- In Kisangani, lubricants were kept in open air, thereby exposed to weather conditions that could lead to deterioration and wastage.

- The Fuel Unit had identified best practices in health, safety and environment but had not implemented them in Kinshasa, Kisangani, Kigoma and Lubumbashi.

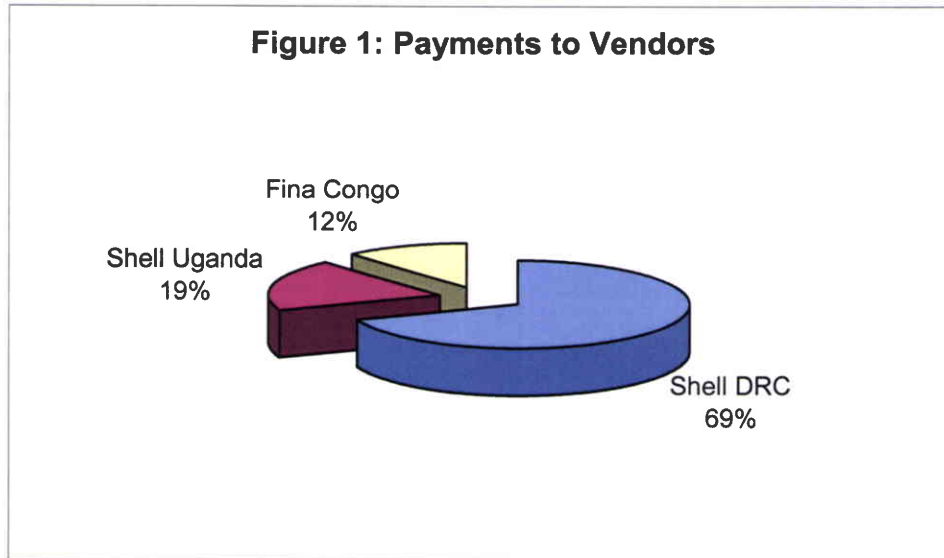- There was no written business continuity and disaster recovery plan for the fuel operation.

OIOS recommends that the Fuel Unit should finalize and implement uniform SOPs for all sub-units, conduct routine independent stock takes, implement health, safety and environment best practices and prepare business continuity and disaster recovery plans.

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I. INTRODUCTION

1.   OIOS conducted an audit of fuel management in MONUC during January - March 2005. The audit was conducted in accordance with the standards for the professional practice of internal auditing in United Nations organizations.

2.   The Mission purchased fuel mainly from Shell DRC, Shell Uganda and Fina Congo with maximum contract amounts of $73.7 million, $25.0 million and $23.5 million respectively. During 2002 - 2004, MONUC paid $106.9 million to the three vendors as shown in Figure 1:

Figure 1: Payments to Vendors

Fina Congo 12%

Shell Uganda 19%

Shell DRC 69%

3.   The Fuel Unit in Kinshasa has 14 sub-units at Kinshasa, Kisangani, Kanaga, Kalemie, Bukavu, Goma, Kindu, Mbandaka, Bunia, Beni, Lubumbashi, Entebbe (Uganda), Kigoma (Tanzania), and Kigali (Rwanda). The fuel staff follow draft Standard Operating Procedures (SOPs). The Mission's annual consumption of fuel was about 84 million liters of Jet A1 and 18 million liters of diesel.

4.   MONUC's responses are shown in the report by the use of italics.   Additional information OIOS need to close the recommendations in its database are shown in Annex I.

II. AUDIT OBJECTIVES

5.   The main objectives of the audit were to obtain reasonable assurance that:
  (i)   Contract terms with fuel vendors are complied with;
  (ii)   Draft SOPs for receiving, storage and disbursement of fuel products are complied with;
  (iii)   Fuel stocks as per underlying records exist; and
  (iv)   Business continuity and disaster recovery plans are in place for fuel operation.

III. AUDIT SCOPE AND METHODOLOGY

6.   The audit covered the three-year period from 1 January 2002 to 31 December 2004 and was conducted in Kinshasa, Kisangani, Lubumbashi, Kigoma (Tanzania), and Entebbe (Uganda).

IV. OVERALL ASSESSMENT

7.   MONUC has a large and complex fuel operation involving procurement of fuel from mainly three vendors and distribution from 14 locations. Given the size of the operation and the fact that the Mission had generally a consistent supply of fuel for all its operations, its Fuel Unit was managing the function satisfactorily. However, opportunities for improvement existed regarding compliance with the terms of contracts, finalization of uniform standard operating procedures, and implementation of health, safety and environmental standards. The Mission operations could suffer in the event of a disaster, as there was no written business continuity and disaster recovery plan.

V. AUDIT FINDINGS AND RECOMMENDATIONS

A. Fuel Unit performance

8.   MONUC has a large fuel operation. Its fuel budget for 2004-05 was $50.4 million covering: air transportation, $38.7 million (76.8%); ground transportation, $5.6 million (11.2%); facilities and infrastructure, $4.6 million (9.1%); and naval transportation, $1.5 million (2.9%). It procured fuel from mainly three vendors, including one from Uganda, for $106.9 million during 2002-2004. Its operation was spread at 14 locations. Annually it procured and distributed about 84 million liters of Jet A1 and 18 million liters of diesel. OIOS found that, generally, the Fuel Unit was adequately managed. It was achieving its primary objective of supplying fuel, without interruption, for all Mission operations.

B. Lack of uniform standard operating procedures for all locations

9.   It is a good practice that for complex operations like fuel management at MONUC, Standard Operating Procedures (SOPs) should be in place, encompassing policies and instructions of the entire operational cycle at each location.

10.   At the time of audit, during January–March 2005, the Fuel Unit had draft SOPs for quality control and operations in Kisangani, Bunia, and Goma Fuel Units. However, the Kinshasa, Kigoma and Lubumbashi Fuel Units did not have any SOPs.

11.   During discussion, Fuel Unit Management asserted that they had developed separate SOPs for all locations because a uniform SOP applicable to all locations would not be practical. OIOS thinks that having 14 different SOPs would not be appropriate as it may lead to different sets of internal controls for each location, exposing the whole operation to diverse practices. Instead, it would be more appropriate to have a uniform SOP with standard sets of internal controls. However, the SOP could have location-specific annexes to cater to the needs of each location.

Recommendation 1

OIOS recommends that the MONUC Fuel Unit prepare and implement uniform SOPs for similar operations for all Fuel Units and sub-units throughout MONUC with standard sets of internal controls. The SOP could have location specific annexes to cater to the unique needs of each location (AP2005/620/11/001).

12.   *MONUC accepted the recommendation and is implementing it. SOPs have been drafted and sent out to field staff for their comments and expected to be finalized before end of September 2005.* OIOS will close the recommendation when the SOPs are finalized.

C. Non-compliance with best health, safety and environment practices

13.   The Fuel Units have a significant role in health, safety and environmental protection. It includes developing and complying with emergency response plans for various risks such as fire, fuel spillage, accident, and bomb threats; appropriate training for handling fuel and use of fire extinguishers; conducting fire drills, observance and display of "No Smoking" and "No Fire" signs; having appropriate fire fighting equipment when refueling; and availability of medical support.

14.   MONUC had these draft MONUC/UN SOPs: Aviation Fuel – Quality Control, MONUC – Quality Control Procedures, Goma Fuel Unit SOPs, and Fuel Operations: SOP 3 – Contracts, Accounting and Management.

15.   OIOS examined the practices relating to health, safety and environmental standards at Kinshasa, Kisangani, Kigoma and Lubumbashi and found:

a)   None of the Fuel Units had:
- Written guidance or SOP dealing with health, safety and environment.
- Written emergency response plans for the various risks – fire, spillage, accident, and bomb threats.
- Records indicating the training undertaken by staff.
- Conducted fire drills during the period 2002 – 2004.
- Records to indicate that the fire extinguishers in the bowsers were checked regularly.

b)   The diesel bowsers at Kinshasa and Kisangani did not have "No Smoking" signposts.

c)   There was no emergency medical support during re-fuelling at Kigoma and Lubumbashi Airports.

d)   There were no fire fighters and appropriate fire fighting equipment available during the refueling of aircraft at Kigoma Airport.

e)   There was no designated parking space for fuel bowsers at Kinshasa Airport and Kisangani Fuel Unit with no unauthorized access, no smoking and no fire restrictions. Kisangani Fuel Staff explained that the designated place was at the airport, which was then under construction.

f)   Staff at Kinshasa Airport stayed in fuel bowsers throughout the day, with engines running for air conditioning, as they did not have office space. Thus, they were exposed to the risk of fuel accidents. Fuel Unit had requested for staff office accommodation.

16.   The inadequate handling of health, safety and environmental issues exposes the Mission to the risk of loss of life, bodily injury, loss of assets, and negative publicity.

17.   During discussion, Fuel Unit Management asserted that the implementation of the draft SOPs on health, safety and environment was the responsibility of Fire and Safety Unit under General Services Section. OIOS does not agree with this as the draft SOPs obviously deal with and are meant for fuel operations.

Recommendations 2 and 3

OIOS recommends that:

i)   The MONUC Fuel Unit should finalize, circulate and monitor compliance with the SOPs relating to heath, safety and environment (AP2005/620/11/002).

ii)   MONUC Administration finds office accommodation for the fuel staff at Kinshasa Airport (AP2005/620/11/003).

18.   *MONUC accepted recommendation 2 and indicated that the Fuel Quality Control Officer, in coordination with the Fire Safety Unit and Environmental Unit, is developing the SOPs relating to health, safety and environment, which are expected to be completed by mid August 2005.* OIOS will close the recommendation when the SOPs are finalized.

19.   *MONUC accepted recommendation 3 and stated that the Air Terminal Unit has provided office space to Fuel Unit staff at Kinshasa Airport.* OIOS has closed the recommendation in its database.

D.   Lack of business continuity and disaster recovery plan

20.   It is a good practice for Mission-critical operations, like the Fuel Unit, to have a written and tested business continuity and disaster recovery plan in place. The plan would assist the Mission continue operations in the event of a disaster.

21.   The Fuel Unit did not have a written business continuity and disaster recovery plan for fuel operations. The risk was that if a disaster occurred, the Mission operations would be disrupted by fuel shortage. Furthermore, there was a possibility of incurring excessive costs during a disaster because of unplanned emergency purchases.

22.   Management explained that they had a robust monitoring mechanism in place that enabled a disruption-free supply over the past four years. Therefore, written business continuity and disaster plans may be an academic exercise and could not add value to their operations. OIOS does not agree with this point of view. The smooth operation during the last four years could be due to personal initiative and leadership of the Fuel Cell Management. It cannot be a substitute for institutionalization of good management practices.

Recommendation 4

> OIOS recommends that the MONUC Fuel Unit prepare, test and keep updated a written business continuity and disaster recovery plan relating to fuel operations (AP2005/620/11/004).

23.   *MONUC accepted the recommendation and commented that as a step forward in the direction of maintaining uninterrupted operations during any disaster, the Fuel Unit had ordered strategic reserve stocks at key locations of the mission. These stocks would be available before 31 July 2005. Detailed disaster recovery plan would also be included in the SOPs.* OIOS will close the recommendation when the strategic reserves are at key locations could be verified and the disaster recovery plans are included in the SOPs.

E.   Discrepancies in stock take and lack of routine fuel stock take practices

24.   OIOS conducted stock takes at Kinshasa, Kisangani and Kigoma Fuel Units. The results are as follows:

Kinshasa

25.   At Kinshasa Airport, there were no records kept of daily balances in MONUC bowsers. The staffs were not required to keep the records.

26.   At Kinshasa Iveco, significant differences were observed during diesel stock take on 14 and 17 February 2005 as shown in Table 1:

Table 1: Iveco Diesel Station Stock Take Differences

Date	Tank No.	Physical balance (Liters)	Record Balance (Liters)	Difference (Liters)
14.02.04	1	4,284	5,385	(1,101)
14.02.04	2	1,079	1,080	1
14.02.04	3	7,100	8,180	(1,080)
17.02.04	1	2,827	2,160	667
17.02.04	2	2,789	2,548	241
17.02.04	3	11,885	12,693	(808)

27.   The fuel attendant explained that the 1,101 liters shortfall in Tank # 1 on 14 February was due to the issuance of 1,496 liters to Supply Section, which was not recorded. He did not explain

the difference in Tank # 3 on 14 February and the differences on 17 February 2005. There were no daily independent supervisory stock checks done on the actual stock. Fuel Unit was looking into the matter and promised to respond.

28.   A look at the stock balances in the 2004 daily stock records indicated differences between the reported total balances and the tank dipping totals. During the year, there were 13 differences of over 600 liters that ranged from 614 liters to 4,150 liters (Annex II). Fuel Unit was looking into the matter and promised to respond.

29.   There were no records kept of lubricants' stocks at Kinshasa Fuel Unit.

Kisangani

30.   There were no significant differences between stocks and underlying records.

Kigoma

31.   There was no system to verify the quantity of diesel in the bladder. Reliance was placed on theoretical balances in the daily, weekly and monthly reports that were sent to Fuel Unit at Kinshasa.

32.   OIOS observed the following during the stock take:

a)   There were no routine stock takes done to reconcile actual physical stock with underlying records as the bladder did not have a fuel measuring mechanism. Fuel Unit Management is aware of this problem and is considering replacing the bladders.

b)   The generator staff were allowed to draw fuel using 20-liter plastic containers that were previously used for cooking oil. There was no guideline prohibiting the use of the containers. The containers could explode because of static electricity thereby causing bodily injury or loss of life or have impurities that could adversely affect generators.

33.   During discussion, the Fuel Unit Management explained that they had a system of surprise checks of physical quantities in stock. The Chief–Fuel Unit, whenever he visits a unit, makes surprise check of physical stocks. According to Fuel Unit Management, the system was working well. They further asserted that a planned system of physical verification of stock would not be feasible and would not be useful, as it would allow a possible theft to be made good temporarily.

34.   However, OIOS is of the opinion that a system of surprise check cannot be a substitute for a systematic physical verification of stock periodically. This practice is considered a robust control in respect of all assets. Surprise checks are only an additional control to reinforce the system of periodic physical verification.

Recommendations 5 and 6

OIOS recommends that the MONUC Fuel Unit:

i)   Investigate the differences noted during the stock take for Iveco Diesel Station and take appropriate corrective action (AP2005/620/11/005); and

ii)   Introduce a system of independent periodic physical verification of fuel in MONUC bowsers and tanks and keep a record of the verification (AP2005/620/11/006).

35.   *MONUC accepted recommendation 5 and stated that the Fuel Unit, in coordination with R & I, is investigating the differences noted during the stock take for Iveco Diesel Station.* OIOS will close the recommendation when the Fuel Unit and R & I complete the investigation and communicate the results.

36.   *MONUC accepted recommendation 6 with the comment that all bulk stocks in bowsers were recorded on issuer and receipt vouchers and individual dispensing was recorded with written signatures for receipts. Independent verification was to be conducted as per the SOPs.* OIOS will close the recommendation upon confirmation that independent verification of fuel in MONUC browsers has started and records of the verification are kept.

F.   Inadequate performance bonds

37.   The fuel contract signed with each vendor requires the vendor to provide MONUC, within 15 days from the date of notification of award of contract, a performance bond equivalent to 5% of the maximum contract amount.

38.   OIOS noted that there was a shortfall of over $5 million in the performance bond values for the three contracts audited, as shown in Table 2:

Table 2: Vendor Performance Bond Shortfall

Vendor	Maximum Contract Amount	Required Performance Bond Value	Actual Performance Bond Value	Shortfall
1. Fina Congo	$23,499,228	$1,174,961	$--	$1,174,961
2. Shell Uganda	24,983,411	1,249,171	--	1,249,171
3. Shell DRC	73,744,623	3,687,231	1,045,290	2,641,941
Total	$122,227,262	$6,111,363	$1,045,290	$5,066,073

39.   Shortfalls in the bond values expose MONUC to a possible loss of up to $5 million in recoverable costs in case vendors fail to execute agreed terms and conditions of the contracts.

40.   Procurement Section explained that Fina Congo and Shell Uganda were contacted by MONUC for providing the bonds but did not provide. The contracts have since been terminated and replaced. As there was no contractual requirement to provide additional bond values after an upward adjustment of the maximum contract amount, Shell DRC did not provide revised bond with higher value.

Recommendation 7

OIOS recommends that MONUC Procurement Section obtain performance bonds of appropriate values from all vendors in future fuel contracts (AP2005/620/11/007).

41.   *MONUC accepted the recommendation with the comment that performance bonds of appropriate values are obtained from all vendors are done as a matter of course and as required by RFPs.* OIOS will close the recommendation upon confirmation that all existing fuel contractors have provided appropriate performance bonds.

G.   Non-compliance with contract terms for payments to vendors

42.   The Mission paid a total of $106.9 million to Shell DRC, Shell Uganda and Fina Congo during 2002-2004 as summarized in Table 3:

Table 3: MONUC Payments to Vendors

Vendor	2002 (US$)	2003 (US$)	2004 (US$)	Total Amount (US$)
Shell RDC	$21,070,759.46	$31,471,840.30	$21,426,136.60	$73,968,736.36
Shell Uganda	0.00	4,017,572.47	16,448,985.04	20,466,557.51
Fina Congo	1,061,478.63	4,028,755.69	7,425,938.31	12,516,172.63
	$22,132,238.09	**$39,518,168.46**	**$45,301,059.95**	**$106,951,466.50**

Vendor invoice documentation

43.   According to the signed contracts, vendors should provide, with each invoice, the following documents:

a)   Task orders for supplies and services

b)   Delivery certificates duly signed by representatives of both parties

c)   Original bill of lading

d)   Platt's Price Index

44.   The vendors did not fully comply with these contractual requirements as summarized in Table 4:

Table 4: Documents not produced by Vendors

	Vendor	Task Orders	Delivery Certificates	Bills of Lading[1]	Platt's Index
1.	**Shell Uganda**				
	Total Payments Tested	28	28	28	28
	Documents NOT submitted	22	0	28	28
2.	**Shell RDC**				
	Total Payments Tested	11	11	11	11
	Documents NOT submitted	0	0	0	0
3	**Fina Congo**				
	Total Payments Tested	21	21	21	21
	Documents NOT submitted	0	5Φ	3	21

Φ = Photocopy delivery certificates provided.

45.   In brief:

a)   Shell Uganda did not provide task orders, bills of lading and the Platt's Index. This was because the vendor used monthly average prices although the contract did not have a provision for applying monthly average pricing.

b)   Fina Congo did not provide copies of the Platt's Index; it used delivery certificate photocopies on five payments tested, and did not provide copies of bills of lading on three payments tested by audit.

Taxation

46.   The Mission is exempt from paying direct taxes as set out in Section 7 of the Convention of Privileges of the United Nations. However, MONUC paid Shell Uganda $546,800 as duties for 2,734,000 liters of diesel during 8 January - 11 August 2004. The Mission also paid GAPCO Uganda $92,941 as excise duties for 464,706 liters of diesel supplied during 28 November 2003 - 16 September 2004. Contract Management Section explained that Ugandan law required taxes to be charged on diesel in all cases regardless of the purchaser. MONUC was seeking refund of the duties in line with the Memorandum of Understanding signed with the Government of Uganda.

Recommendations 8 and 9

OIOS recommends that the MONUC Contracts Management Section:

i)   Ensure that all fuel vendors submit the documentation specified in the contract along with the invoices (AP2005/620/11/008); and

ii)   Reinforce its efforts to recover the duties paid to the Government of Uganda through Shell Uganda and GAPCO

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[1] The vendors were required to provide original bills of lading. However, this has been found impractible given the multiple usages of the documents. Certified copies of the documents were accepted.

Uganda and seek exemption from future payments (AP2005/620/11/009).

47.   *MONUC accepted recommendation 8 and stated that it had already implemented the recommendation. The Chief Contract Management explained that they will not process for payment any fuel vendor invoices received at its counters without all required supporting documentations attached as deemed essential as per the contract between MONUC and the vendor. In the event such invoices are received, they will be immediately returned to the vendor, and when necessary, with a covering letter outlining the required corrections before payment may be made.* OIOS will close the recommendation upon verification that all contractors provide documentation specified in the contracts.

48.   *MONUC accepted recommendation 9 and commented that Contract Management Section has been working since November 2003 in coordination with the Chief Finance Officer and the Senior Legal Adviser to seek reimbursement from the Ugandan authorities regarding the recovery of diesel fuel excise taxes. The Mission met and discussed the issue of excise duties recovery with the Ugandan authorities. It was agreed that MONUC would pursue recovery (through collating the required document file and submitting it to competent Ugandan authorities) of excise duties collected up to 08 April 2005 for all diesel fuel delivered to the Mission. Recovery of duties levied by the Ugandan authorities for diesel delivered and consumed in Uganda after 08 April will continue to be the responsibility of MONUC under the Ugandan law. MONUC suppliers will be responsible for the recovery of excise duties for diesel re-exported to the DRC. A Note Verbale is being prepared and will be submitted to the Ministry of Foreign Affairs, Uganda to this effect.* OIOS will close the recommendation when the funds are recovered.

H. Pricing risks

49.   The contract price for petroleum products was agreed between MONUC and the vendors. The price was based on the Platt's Price Index published on the date of the bill of lading, sea and land freight charges, and an agreed premium. A maximum contract amount was also agreed with each vendor.

Prices of petroleum products

     a)   MONUC Access to Platt's Price Index

50.   MONUC does not have independent access to the Platt's Price Index. The Mission relies on Platt's Price Indices provided by the vendors. At times, vendors do not provide the copies of the indices and the Mission still processes the invoices for payment. There was a risk that the Mission may pay higher prices than would be due according to the Platt's Price Index.

     b)   Standardization of Decimal Places

51.   MONUC has not set a standard number of decimal places for vendors' invoices. In a sample of 11 invoices tested, the numbers of decimal places varied from 2 to 7, as shown in Table 5:

Table 5: Variation of decimal places in vendors' prices

Vendor	Delivery Place	Fuel Type	Invoice Date	Unit Price	Decimal Places	Quantity Liters	Amount $
1. Shell Uganda	Entebbe	Diesel	27.09.04	0.69	2	405,000	$279,450
2. Shell RDC	Kisangani	JET A1	31.10.03	0.5317	4	646,691	343,846
3. Fina Congo	Lubumbashi	Diesel	10.02.04	0.47179	5	6,253.82	2,950
4. Shell Uganda	Entebbe	Jet A1	14.09.04	0.5309858	7	1,197,868	$636,051

52.   This variance in decimal places could have significant financial effect given the significant value of MONUC fuel transactions[2].

    c)   Composition of Prices

53.   Shell Uganda did not provide the Platt's Price Index, freight and forwarding charges, and the premium used on the invoice prices. Instead, the vendor used prior month average prices for the transactions in a month. The Contract Management Section allowed the use of an average monthly price in order to protect the Mission from high fuel price volatility.

54.   There was no study to assess the costs and benefits of using the average prices. Therefore, it was not clear whether the Mission gained or lost financially by using the average prices. Furthermore, the contract did not provide for the use of prior month's average pricing.

Maximum contract amounts

55.   At the end of 2004, Shell Uganda and Fina Congo were within the maximum contract amount limit. However, Shell DRC had exceeded the limit by $224,113 as shown in Table 6.

Table 6 –Actual Payments Compared with Maximum Contract Amount for Shell RDC

Date of Revised Maximum Contract Amount	Maximum Contract Amount	Actual Amounts Paid by Finance Section	Excess
01/10/04	$73,744,623	$73,968,736	$ 224,113

56.   The Contract Management Section maintained an Excel spreadsheet to monitor the maximum contract amount. The spreadsheet indicated that as at 31 December 2004, Shell DRC had been paid a total of $70,886,563 and thus the vendor was within limit. Contract Management Section needs to reconcile their balances with the Finance Section.

57.   According to the contract, the maximum amount could be exceeded only if the contract was amended.

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[2] MONUC paid a total of $107 million for fuel to the 3 vendors during 2002 - 2004.

Recommendations 10 to 13

OIOS recommends that the MONUC Contracts Management Section:

i)   Subscribe to obtain Platt's Price Indices independent of the vendors (AP2005/620/11/010);

ii)   Set a standard for decimal places in prices on fuel invoices (AP2005/620/11/011);

iii)   Study the costs and benefits to the Mission of vendors using the previous month's average prices against the use of daily prices as provided in the contract. The outcome would guide the Mission on a better pricing system for all vendors (AP2005/620/11/012); and

iv)   Reconcile the balances in the contracts monitoring spreadsheet with Finance Section (AP2005/620/11/013).

58.   *MONUC accepted recommendation 10 and indicated that the Chief Contract Management had previously recommended to UNHQ that the Mission obtain a subscription to the Platt's Price Rate Index, however, given the cost of the subscription (approximately US$ 12,000+ annually), UNHQ determined that CMS could use copies of the Platt's Price Rate Index provided and certified by the vendor.* OIOS will bring this issue to the attention of DPKO. The recommendation will remain open until the Mission subscribes to the Platt's Price Indices.

59.   *MONUC accepted recommendation 11 and stated that it had already implemented the recommendation. The administration explained that with respect to pricing the number of decimal points is determined by Procurement and the Vendor during contract negotiations and the number of decimal points has been set as recommended by the OIOS and have been implemented in the new contracts awarded 01 February 2005.* OIOS will close the recommendation upon confirmation of the standardization of decimal places.

60.   *MONUC did not accept recommendation 12 with the comment that the pricing mechanism is quite clear. There is no change to the fixed elements unless agreed by MONUC. The variable element is based on Platt's which is an internationally accepted standard and is used globally. Vendors would certainly not accept if MONUC adopt a different system.* In OIOS' opinion, the Mission can only benefit from a better informed pricing system that would result from a cost-benefit comparison between the daily and monthly average price, both based on Platt's Indices, and requests that the Mission reconsider its position on this matter.

61.   *MONUC accepted recommendation 13 and indicated that the Contract Management Section will reconcile the fuel Request for Payment balances with the Finance Section to ensure agreement with CMS monitoring spreadsheets.* OIOS will close the recommendation when the reconciliation has been done.

I.   Differences in delivery documentation and Fuel Unit records

62.   The Fuel Unit records should support the payments made to vendors. Whenever a vendor delivers fuel, a delivery certificate is prepared and the Fuel Unit records the transaction.

63.   OIOS compared some of the amounts certified and paid as per Contract Management Section's invoice statements and the actual amounts on the copies of delivery certificates/fuel records kept by Kinshasa, Kisangani, Kigoma and Entebbe units. Thirteen differences, out of 1,446 entries examined, were found between the Jet A1 quantities on the certified invoice summaries and the duplicate delivery copies at the Fuel Units, as shown in Table 7.

Table 7: No. of Differences of Certified Amounts and Fuel Records

Details	Kinshasa	Kisangani	Kigoma	Entebbe	Total
Number of differences in quantities	3	2	5	3	13
Number of deliveries examined	144	427	244	631	1,446

(Refer to Annex III for additional details)

64.   The Contract Management Section explained that the differences arose when vendors split deliveries and issued different invoices that added up to the same amount.

65.   Furthermore, three Jet A1 Kigoma delivery certificates for $3,289 (see Table 8) were not available for audit and no alternative records were available at the Fuel Unit.

Table 8: Missing Delivery Records for Jet A1 at Kigoma

Date	Delivery Note #	Quantity (Liters)	Value ($)
23.06.03	8401	4,452	$2,598.72
21.07.04	3842	400	251.44
24.07.04	3846	699	439.40
		5,551	$3,289.56

66.   In August 2004, a 12,000-liter delivery of diesel for $6,896 to Kinshasa Fuel Unit was not reflected in the Iveco Fuel Station Daily Report. Management was trying to identify the station where the fuel was delivered.

67.   In Lubumbashi, there were no documents available for diesel refueling done during January - February 2004. The Fuel Unit representative explained that Kanaga Fuel Unit handled all the fuel transactions, and no record was kept in Lubumbashi. Fuel records for Lubumbashi were available at the location from August 2004 onwards.

68.   OIOS considers that there is a risk of fraud and inaccurate payments being made, which could result in financial loss to the Mission.

Recommendations 14 and 15

OIOS recommends that:

i)   The MONUC Contracts Management Section should not accept differences in quantities on the vendor invoices and delivery certificates (AP2005/620/11/014); and

ii)   The MONUC Fuel Unit investigate the diesel deliveries for $3,289 and $6,896, claimed to have been delivered to Kigoma and Kinshasa Fuel Units and take appropriate action (AP2005/620/11/015).

69.   *MONUC accepted recommendation 14 with the comment that it never accepts invoices from vendors with quantities that differ from the delivery notes. When such discrepancies are discovered, vendors are notified of the discrepancies which are either corrected immediately by the vendor or the invoices are returned for later correction and re-submission to Contract Management Section. Prior to forwarding the invoices/supporting documents to Aviation/Supply/R&I, CMS notes any incorrect amount and places that amount into dispute paying against the correct ADRs rather than hold up an entire invoice for insignificant errors.* OIOS will close the recommendation until it can be confirmed that CMS invoices with quantities that do not match the delivery notes are not accepted for processing of payment.

70.   *MONUC accepted recommendation 15 and stated the following:*

i)   *Regarding missing delivery records for Jet A1 at Kigoma for $3,289.56, CMS informed that when the audit was carried out a copy of 3 relevant invoices were given to the auditor. Each of these invoices clearly sates that the delivered quantity was split between 2 invoices. Neither the invoiced nor the certified amounts exceed the amount delivered on the single ADR, indicating that CMS followed the UN FRR, and certified the invoice with the relevant supporting documentation. Further, CMS understood that the auditor was satisfied with the invoice copies submitted and at the time they did not attempt to retrieve the original ADR documents, which were filed in the Finance Section with the Request for Payment.* OIOS maintains that the documentation referred to was not made available to the auditor both in Kigoma and in Kinshasa. The recommendation will be closed upon receipt and verification of the documents in question.

ii)   *With regard to the delivery of diesel for $6,896, MONUC Fuel Unit, in coordination with R & I and Contract Management Section, is investigating the matter.* OIOS will close the recommendation when the investigation is completed and results communicated.

J.   Risks relating to quality and quantity of fuel during receipt

71.   At Kinshasa, Kisangani, Kigoma and Lubumbashi Fuel Units, the vendor directly refuels the aircraft. Kinshasa and Kisangani Fuel Units also use MONUC refuellers (bowsers).

72.   The Fuel Unit staff were expected, according to the draft MONUC – Quality Control Procedures, to do the following:

a)   Observe the clear tests and water tests and record the results to ensure that clean fuel was received.

b)   Observe the filter element differential pressure during the refueling and record accordingly to ensure that the fuel filtration system was operating within the desired parameters to ensure that fuel contains no impurities.

c)   Observe that the correct quantity of fuel was received.

d)   Re-confirm the delivered quantity by checking vendor gauges for direct aircraft re-fuelling, or conducting positive dips/observing gauges on the bowsers.

73.   These procedures were not strictly adhered to. For example,

a)   At Kisangani, staff observed that the clear and water tests were conducted by vendor and aircraft crew before refueling was done. However, no MONUC records were kept. Reliance was placed solely on the vendors' delivery certificates where the testing results were recorded. Staff did not record the test outcomes because, according to them, the draft SOP did not require it.

b)   At Kalemie Fuel Unit, the Officer in Charge had designed a form to record the outcome of the tests as an interim measure for Kigoma and Lubumbashi Fuel Units where the procedure was not being done.

c)   There was no Fuel Unit representation for re-fuelling of aircraft in Kigoma. In Lubumbashi, the Transport staff, designated to assist with the fuel duties, occasionally attended the refueling when not busy. No records were kept for the observation done. The Fuel Unit staff was aware of the problem and was recruiting staff for Kigoma and Lubumbashi Fuel Units.

d)   Kinshasa Fuel Unit staff indicated that they observed the filter element differential pressure during re-fuelling although there were no records for the observation, as, according to them, there was no requirement to do so. Kisangani, Kigoma and Lubumbashi Fuel Units did not observe the filter pressure when re-fuelling.

74.   Non-adherence to the identified standard operating procedures could pose major risks to the Mission, including:

a)   Loss of aircraft, human lives and cargo in air disasters arising from malfunction as a result of fuel contamination during receipt.

b)   Lawsuits against MONUC for possible negligence in handling fuel.

c)   Financial losses due to under-receipt of fuel.

d)   Unavailability of adequate MONUC refueling records for future reference – for example, in fraud or accident investigations.

75.   Fuel Unit Management explained that it was not necessary for staff to maintain any records regarding the vendor refueling observation because the vendor was responsible for quality and indicates the results of the tests done on the delivery certificates. Any additional record keeping by MONUC could imply lessening vendor responsibilities. OIOS agrees with Fuel Unit Management that the Mission should not assume the responsibilities of the vendors. However, the ultimate responsibility for implementing controls to ensure proper quality of fuel cannot be delegated to anyone. The Mission would remain answerable if any accident occurred. It may not be possible for the Mission to ward off liability by saying that the quality was the responsibility of the vendor. For this reason, it would be safe for the Mission to initiate an internal control for satisfying itself that the vendor met his obligations.

Recommendations 16 and 17

OIOS recommends that the MONUC Fuel Unit:

i)   Initiate a proper internal control to satisfy itself that the vendor does quality tests before fuel delivery and refueling (AP2005/620/11/016).

ii)   Recruit staff for Kigoma and Lubumbashi Fuel Units (AP2005/620/11/017).

76.   *MONUC accepted recommendation 16 and stated that it had implemented the recommendation. At all locations where vendors are responsible for fuel delivery and refueling, records are maintained on which vendors certify that quality tests are carried out before every delivery. MONUC Fuel Supervisors at these locations carry out random checks to confirm that these tests are actually being done. All Fuel Supervisors have been asked to maintain a record of such random inspections. Fuel Quality Officer has been instructed to check the records of the Fuel Supervisors during his inspections.* OIOS will close the recommendation upon confirming that records of the inspections are kept.

77.   *MONUC accepted recommendation 17 and indicated that the posts have been approved in the 2005-06 budget and recruitment is under way. Candidates have been recommended for recruitment as UNVs.* OIOS will close the recommendation when the vacancies are filled.

K.   Fuel storage risks

78.   The Mission stored some fuel in MONUC bowsers in Kinshasa and Kisangani, a bladder in Kigoma and underground tanks at Iveco in Kinshasa. The MONUC Quality Control Procedures for storage of fuel and petroleum products are as follows:

a) Adequate labeling of fuel tanks
b) Maintenance of records for daily water draining done for Jet A1
c) Record keeping for the fuel stock

79.   Opportunities for improvement exist regarding the storage of fuel and petroleum products as follows:

a)   The MONUC diesel bowsers at Kinshasa Airport and Kisangani Fuel Unit, and the diesel bladder at Kigoma were not labeled. Therefore, there was a risk of human error/contamination of fuel during handling. The Fuel Unit Management indicated that they have since ordered label stickers.

b)   No records were kept of the daily water drains in Jet A1 bowsers. At Kinshasa Airport, staff explained that they did the daily water drains but there was no requirement for record keeping. In Kisangani, the drains were not done daily but periodically (no specific time interval given) and no record was kept. The Officer in Charge of the Fuel Unit explained that the fuel was kept for emergency only, and not for daily use. Furthermore, water would still be drained and fuel checked before issuance to aircraft. The Fuel Management concurred with the Officer's explanation. However, OIOS thinks that, in the absence of draining records, there was insufficient evidence that the draining was actually done. The non-draining of water on a daily basis could lead to deterioration of fuel to unacceptable limits. This could cause malfunctioning of aircraft, accident and loss of life and assets.

c)   Kinshasa Fuel Unit did not keep record of daily stock balances for fuel in bowsers. In the absence of good record keeping of the stocks, fuel could be stolen and may remain undetected.

d)   In Kisangani, lubricants, battery acid and distilled water were kept in open space (Picture1). The Officer in charge of the Fuel Unit explained that resources were not available to construct a shade. The exposure to weather conditions could compromise quality of the products and affect adversely the aircraft and vehicles. For example, during the audit, some 20-liter plastic containers of acid and distilled water had already cracked because of direct sunshine.

Picture 1: Kisangani Lubricants Kept in Open Air

e)   In Kigoma, diesel was stored in a bladder. There was no access control to the pump. Thus anyone could obtain diesel by simply starting the machine pump, as no key was required. There was a locking facility on one side of the bladder but this was not dually control. In this situation, theft of diesel could remain undetected.

Recommendations 18 to 21

OIOS recommends that:

i)   The MONUC Fuel Unit ensure that all Fuel Units that store Jet A1 conduct daily drains and keep records (AP2005/620/11/18).

ii)   The MONUC Fuel Unit ensure that all Fuel Units keep records of stocks of fuel in the bowsers (AP2005/620/11/019).

iii)   The MONUC Fuel Unit strengthen access controls to the Kigoma diesel pump (AP2005/620/11/020).

iv)   MONUC Administration should provide appropriate storage for lubricants for Fuel Units like Kisangani (AP2005/620/11/021).

80.   *MONUC accepted recommendation 18 and stated that it had already implemented the recommendation. The detailed procedures are also being covered in the SOPs.* OIOS will close the recommendation after confirming that records for the daily drains are kept.

81.   *MONUC accepted recommendation 19 and indicated that it had already implemented the recommendation.* OIOS will close the recommendation after confirming that records for stocks of fuel in bowsers are kept.

82.   *MONUC accepted recommendation 20 and stated that they had already implemented the recommendation by putting padlocks on the pump.* OIOS has closed this recommendation in its database.

83.   *MONUC accepted recommendation 21 and commented that the Fuel Unit had already raised work order with Engineering Section for construction of shed in Kisangani.* OIOS will close the recommendation after Engineering Section constructs the shed.

L.   Non-maintenance of records for issuance of fuel to non-MONUC operations

84.   Sometimes MONUC assists other UN agencies in refueling of their aircraft. The procedures for refueling non-MONUC aircraft are as follows:

a)   The Director of Administration (DOA) approves the re-fuelling.

b)   Finance Section receives cash and issues a receipt or recovers the costs for non-cash issues.

c)   Kinshasa Fuel Unit provides approved price lists to guide Fuel Units.

85.   The record keeping for non-MONUC refueling was not adequate as follows:

a)   There were no separate records kept for fuel issued to non-MONUC aircraft at Kinshasa Airport, Kigoma and Lubumbashi Fuel Units, as there was no procedural requirement for staff to do this. Fuel Management explained that the Kinshasa Airport records are kept at Kinshasa Fuel Center while the Regional Administrative Officers kept the authorizations for Kigoma and Lubumbashi.

b)   Kisangani maintained separate documentation of vendor delivery certificates, and copies of MONUC receipts issued/evidence of Finance Section recovering the costs. However, the DOA's approvals for specific re-fuelling in the audit sample were not on file. The Officer in Charge of the Fuel Unit explained that he had them in his e-mail folder but did not show them to OIOS as the officer was working at another Fuel Unit at the time of audit.

86.   The non-maintenance of separate records for non-MONUC refueling could expose the Mission to financial losses. These include unauthorized refueling, non-receipt of payments for refueling done, theft of cash by non-issuance of official receipt, under collection of income through under-pricing of fuel.

87.   Fuel Management explained that the records for non-MONUC refueling are centrally kept at the Fuel Unit in Kinshasa. However, on 25 April 2005, OIOS did not readily find the approval records for a selected sample at the Fuel Unit Office at Kinshasa. The Fuel Unit Staff

kept some records in e-mail files and indicated that some may have been deleted, and promised to provide all requested records later.
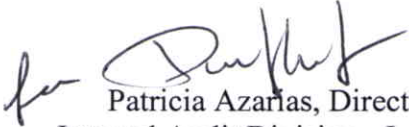
Recommendation 22

OIOS recommends that the MONUC Fuel Unit ensure that all Fuel Units keep separate and complete records for non-MONUC refueling. Such records could include copies of the delivery certificates, Director of Administration's approval, pricing, and cost recovery (AP2005/620/11/022).

88.   *MONUC accepted the recommendation and stated that it had already implemented the recommendation. All relevant records for all non-MONUC refueling are kept in a separate file in the Fuel Unit.* OIOS will close the recommendation after confirming that separate files are kept for non-MONUC refueling.

VII.   ACKNOWLEDGEMENT

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

Patricia Azarias, Director
Internal Audit Division - I, OIOS

SUMMARY OF FURTHER ACTIONS REQUIRED ON AUDIT RECOMMENDATIONS

MONUC's responses to the audit recommendations contained in this report have been recorded in the OIOS recommendations database for monitoring and reporting purposes. Please note that the recommendation database remains open pending the provision by MONUC of evidence that they have been implemented as described in the following table.

Recommendation No.	Required evidence of implementation
AP2005/620/11/001	Final SOPs
AP2005/620/11/002	Final SOPs
AP2005/620/11/004	Strategic reserves at key locations and inclusion of disaster recovery plans in SOPs
AP2005/620/11/005	Report on the results of investigation
AP2005/620/11/006	Records of independent verification of fuel in MONUC browsers
AP2005/620/11/007	Appropriate performance bonds for all existing contractors
AP2005/620/11/008	Contractors documentation specified in the contracts
AP2005/620/11/009	Recovery of funds
AP2005/620/11/010	Subscription to the Platt's Price Indices
AP2005/620/11/011	Standardization of the decimal places
AP2005/620/11/013	Reconciliation of Finance and CMS records
AP2005/620/11/014	CMS stopping receiving of split deliveries
AP2005/620/11/015	Documents for receipt of fuel in Kigoma Report on the results of investigation
AP2005/620/11/016	Inspection records
AP2005/620/11/017	Hiring of individuals to occupy the posts
AP2005/620/11/018	Records of the daily drains
AP2005/620/11/019	Records of stocks of fuel in bowsers
AP2005/620/11/021	Shed construction
AP2005/620/11/022	Separate files for non -MONUC refueling

Differences in Kinshasa Fuel Unit Diesel Daily Report Balances

No.	Date	Reported Day-end Balance in Liters	Tank Dipping Balance in Liters	Difference in Liters
1.	04.08.04	40,818	36,668	(4,150)
2.	05.08.04	35,839	32,772	(3,067)
3.	06.08.04	30,987	29,295	(1,692)
4.	07.8.04	27,168	26,224	(944)
5.	22.8.04	25,781	24,728	(1,053)
6.	23.8.04	21,165	20,520	(645)
7.	15.9.04	32,168	32,885	717
8.	20.9.04	22,950	22,072	(878)
9.	2.11.04	35,653	35,011	(642)
10.	3.11.04	30,484	29,870	(614)
11.	4.11.04	25,762	25,097	(665)
12.	6.11.04	26,157	25,518	(639)
13.	8.11.04	20,316	19,646	(670)

Differences between certified amounts and delivery certificate duplicates

No.	Location	Delivery Date	Invoice Number	CMS Certified Quantity in Liters	Delivery Certificate Quantity in Liters	Difference in Liters
1.	Kinshasa	26.05.04	67229	8,142	10,890*	2,748
2.	Kinshasa	23.03.04	66345	20,322	35,890*	15,568
3.	Kinshasa	24.09.04	75238	5,710	30,000*	24,290
4.	Kisangani	15.10.03	62060	766	15,000	14,234
5.	Kisangani	13.09.03	61745	2,333	5,570	3,237
6.	Kigoma	22.06.04	0003804	1,595	8,020	6,425
7.	Kigoma	20.04.04	0003047	836	6,010	5,174
8.	Kigoma	23.07.04	0003846	10,898	11,597	699
9.	Kigoma	02.07.03	00002211	6,180	6,280	100
10.	Kigoma	11.07.03	0002223	2,193	2,201	8
11.	Entebbe	07.07.04	801177	9,100	1,160	(7,940)
12.	Entebbe	07.07.04	801175	1,160	18,440	17,280
13.	Entebbe	07.07.04	801173	18,440	8,950	9,490

* Refueling movements register used, as there were no vendor duplicate delivery certificates available.

OIOS/IAD Client Satisfaction Survey

The Internal Audit Division is assessing the overall quality of its audit process. A key element of this assessment involves determining how our clients rate the quality and value added by the audits. As such, I am requesting that you consult with your managers who dealt directly with the auditors, and complete the survey below. I assure you that the information you provide will remain strictly confidential.

Audit Title & Assignment No.: Fuel Management in MONUC AP 2005/620/11

By checking the appropriate circle please rate:

	1 (poor)	2	3	4 (excellent)
1. The extent to which the audit addressed your concerns as a programme manager.	○	○	○	○
2. The audit staff's understanding of your operations and objectives.	○	○	○	○
3. The professionalism of the audit staff (communications, integrity, professional knowledge and responsiveness)	○	○	○	○
4. The quality of the audit report in terms of:	○	○	○	○
-- accuracy and validity of findings and conclusions	○	○	○	○
-- clarity and conciseness	○	○	○	○
-- balance and objectivity	○	○	○	○
-- timeliness	○	○	○	○
5. The extent to which the audit recommendations were appropriate and helpful.	○	○	○	○
6. The extent to which your comments were considered by the auditors	○	○	○	○

4

7. Your overall satisfaction with the conduct
    of the audit and its results.

Please comment on any areas in which you have rated the audit team's performance as below your expectations. Also, please feel free to provide any further comments you may have on the audit process to let us know what we are doing well and what can be improved.

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Name:_____   **Date:**_____

Title:_____

Organization:_____

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

Ms. Patricia Azarias, Director, Internal Audit Division, OIOS, Room DC2-518 United Nations Headquarters New York, NY 10017 U.S.A.

or by fax to: 212-963-8100.