



INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of fuel management in UNMIT

Overall results relating to the effective management of fuel in UNMIT were partially satisfactory

21 March 2012

Assignment No. AP2011/682/04

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AUDIT REPORT

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I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of fuel management in the United Nations Integrated Mission in Timor-Leste (UNMIT).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations, and rules.
3. UNMIT, with its headquarters in Dili, has four regional service centres providing logistical and administrative support to the Mission's operations in Dili and in the other 12 districts of Timor-Leste. Fuel consuming assets in UNMIT included six aircraft, 1,054 vehicles and 125 generators. The total monthly fuel requirement of UNMIT averaged 44,000 litres of diesel, 5,000 litres of petrol and 12,000 litres of Jet A-1 aviation turbine fuel.
4. Ground and aviation fuel were the main types of fuel supplies received by the Mission through the use of turnkey contracts. The ground fuel contract with a Not-to-Exceed amount of \$9,424,052 was valid from 1 January 2010 to 31 December 2011 and was subsequently extended to 31 December 2012. The aviation fuel contract had a Not-to-Exceed amount of \$2,845,584 and was valid from 16 November 2008 until July 2011, and a new contract was being completed at the time of the audit. UNMIT also refuels aircraft from a commercial vendor in Darwin, Australia.
5. The Fuel Unit is part of the Supply Section and is headed by a Unit Chief at the P-3 level. The Fuel Unit has three Field Service staff, one United Nations volunteer and two National General Service staff. The fuel budget and expenditures for the fiscal year 2010/11 were \$7.7 million and \$7.4 million respectively.
6. Comments provided by UNMIT are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

7. The audit of fuel management was conducted to assess the adequacy and effectiveness of UNMIT governance, risk management and control processes in providing reasonable assurance regarding the **effective management of fuel operations**.
8. This audit was included in the 2011 OIOS risk-based work plan due to the importance of uninterrupted fuel supply for the Mission's operations, as well as the vulnerability of fuel to loss through theft.
9. The key controls tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as controls that provide reasonable assurance that policies and procedures exist and are implemented for effective management of fuel in UNMIT.
10. The key control was assessed for the control objectives shown in Table 1.

11. OIOS conducted this audit from August 2011 to November 2011. The audit covered the period from 1 July 2010 to 30 June 2011.

12. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to assess their effectiveness.

III. AUDIT RESULTS

13. In OIOS opinion, UNMIT governance, risk management and control processes examined were **partially satisfactory** in providing reasonable assurance regarding the **effective management of fuel operations in UNMIT**.

14. The overall rating is based on the assessment of key controls presented in Table 1 below. UNMIT had developed Mission-specific standard operating procedures (SOPs) to guide staff in the effective management of fuel operations; however these needed to be up-dated to clarify procedures for receipt and analysis of aviation fuel. Other areas where controls need to be strengthened include procedures for receiving fuel, maintaining records of periodic inventory checks, conducting regular consumption analysis, and ensuring fuel equipment is adequately maintained.

Table 1: Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of fuel operations	(a) Regulatory Framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory

A. Regulatory Framework

Controls over receipt of fuel should be strengthened

15. Twenty-one of 38 fuel receipts (55 per cent) reviewed showed control weaknesses including the absence of an authorized UNMIT representative at aviation fuel deliveries, receipt of ground fuel by unauthorized staff, and incomplete records of aviation and ground fuel receipts. In addition, a staff member from the Receiving and Inspection Unit was not present at one delivery in March 2011 of 10,000 litres valued at about \$10,000. Furthermore, receiving and inspection reports included only the monetary value of the fuel delivered instead of the quantity in litres, limiting the usefulness of these reports to confirm fuel deliveries.

16. The Mission-specific SOPs for fuel operations did not include procedures for the receipt and analysis of aviation fuel to provide additional guidance to staff responsible for the management of aviation fuel.

(1) UNMIT should strengthen its controls over the receipt of fuel by further clarifying the roles and responsibilities of staff involved in the process and monitoring compliance with fuel receipt procedures.

UNMIT accepted recommendation 1 and stated that SOPs for generator fuel have been amended and are under review. SOPs for aviation fuel are being prepared. The new procedures will reflect control measures over the receipt of fuel. Recommendation 1 remains open pending receipt of a copy of the updated SOPs for the receiving and monitoring of fuel.

Accounting for fuel needs to be improved

17. Recipients of bulk fuel for United Nations-owned equipment (UNOE) and contingent-owned equipment (COE) are required to accurately account for fuel movements and stocks on daily fuel issue sheets. Improvements were needed as: (a) those used by the Formed Police Units (FPU) were not always completed consistently and in compliance with the Mission's SOPs; and (b) those completed for UNOE did not include closing and opening stock balances and/or meter readings. Moreover, summarized monthly reports of fuel movements were not prepared for UNOE, and UNMIT did not record the results of periodic inventory checks to reconcile physical stock counts to book balances. Inventory checks were not performed by FPUs, as fuel dip sticks and calibration charts to measure fuel stocks were not available.

(2) UNMIT should ensure that effective fuel controls are in place and there are adequate records to monitor and report on fuel stock movements and balances for both contingent-owned and United Nations-owned equipment.

UNMIT accepted recommendation 2 and stated that fuel entries are now recorded in the Carlog System and cross-checking is done for vehicles. Fuel issued for generators is cross-checked with the Engineering Section, and the Aviation Section receipts are crosschecked with the Supply Section. UNMIT provided two monthly summary reports which were reviewed by OIOS. These reports however did not include a reconciliation of physical stock counts to actual book balances. Recommendation 2 remains open pending receipt of copies of updated monthly summary reports that shows that physical stock balances are reconciled to book balances.

Regular consumption analysis needs to be conducted

18. UNMIT did not conduct regular analysis of fuel dispensed by the contractor to UNOE and COE to detect unusual consumption rates and where necessary take appropriate action. The fuel consumption reports prepared by the engineering, transport and aviation sections, as well as the contingents, used as the basis for the Fuel Unit's review, were inadequate to conduct a proper analysis. For example: (a) the Aviation Section did not prepare reports of its periodic checks of consumption; (b) the FPUs, except for one Unit on vehicle fuel, did not adequately conduct fuel consumption analysis; and (c) no vehicle fuel consumption analysis was done for UNOE. Since September 2011, UNMIT staff are required to input fuel data into the Carlog System, and the Mission is now making efforts to review and monitor this information.

(3) UNMIT should analyze fuel consumption on a monthly basis to prevent and/or detect irregularities in a timely manner.

UNMIT accepted recommendation 3 and stated that monthly analysis of fuel consumption is now conducted in cooperation with transport, engineering and aviation sections. Recommendation 3 remains open pending receipt of evidence of monthly fuel consumption analysis for vehicles,

generators and aircraft.

Procedures for fuel site inspections could be enhanced

19. The Fuel Unit was conducting inspections of fuel sites; however, they were not sufficiently regular for all sites. Inspections focused on the quantity of fuel, but did not assess other areas such as quality, accounting for fuel, and safety and environmental hazards. Inspection checklists used by the Fuel Unit were not sufficiently customized to ensure that comprehensive reviews could be done. *UNMIT stated that there are inspection checklists and inspections were carried out on a random basis. However, the checklist has been revised to improve the quality and timing of inspections.*

Adequate maintenance and management of fuel trucks was needed

20. During 2010/11 only two of six fuel trucks had received general maintenance. As a result, one fuel truck was out of service and could only be used as a fuel reserve tank. Also, general maintenance scheduling did not ensure that fuel equipment fitted on fuel trucks was calibrated and inspected. On one of the fuel trucks, the fuel monitoring equipment was not properly calibrated.

(4) UNMIT should ensure that fuel tanks and equipment are properly maintained through scheduling regular maintenance.

UNMIT accepted recommendation 4 and stated that the Transport Section has established maintenance schedules for fuel trucks, and the Engineering Section conducts regular maintenance of generators and outside connections (pipes and valves) of fuel tanks. Based on the action, recommendation 4 has been closed.

Adequate contractor performance evaluations needed to be conducted

21. Quarterly contractor performance evaluations for 2010/11 showed that while UNMIT had done regular evaluations, the report format in the Mercury Procurement System did not allow vendors' performance to be monitored and reported against agreed performance criteria. *UNMIT stated that regular contractor performance meetings will continue to be held on a regular basis and in addition to the existing performance evaluation format in the Mercury Procurement System, a spreadsheet with key performance indicators will be uploaded for reference.*

Environmental and safety measures could be enhanced

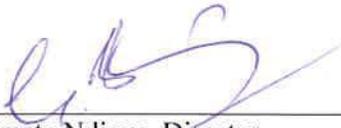
22. Environmental and safety issues needed to be addressed, as follows:

- Fire extinguishers were not regularly inspected and maintained at nine of the sites, and five fuel trucks did not have fire extinguishers.
- Six of seven generator sites inspected did not have spill kits available and therefore, spillages were not dealt with.
- Waste drums at generator sites were not adequately labelled with the description of contents.

23. Action has subsequently been taken by UNMIT, and fuel handling staff are taking the newly released Fuel Certification Training that includes modules on health, safety, and environment spill management.

IV. ACKNOWLEDGEMENT

24. OIOS wishes to express its appreciation to the Management and staff of UNMIT for the assistance and cooperation extended to the auditors during this assignment.



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STATUS OF AUDIT RECOMMENDATIONS

Audit of fuel management in UNMIT

Recom. no.	Recommendation	Risk category	Risk rating	C / O / I	Actions needed to close recommendation	Implementation date ²
1	UNMIT should strengthen its controls over the receipt of fuel by further clarifying the roles and responsibilities of staff involved in the process and monitoring compliance with fuel receipt procedures.	Governance	Important	O	Receipt of updated standard operating procedures for the receiving and monitoring of fuel.	15 April 2012
2	UNMIT should ensure that effective fuel controls are in place and there are adequate records to monitor and report on fuel stock movements and balances for both contingent-owned and United Nations-owned equipment.	Operational	Important	O	Receipt of updated monthly summary reports that show that physical stock balances are reconciled to book balances.	2 March 2012
3	UNMIT should analyze fuel consumption on a monthly basis to prevent and/or detect irregularities in a timely manner.	Operational	Important	O	Evidence of monthly fuel consumption analysis for vehicles, generators and aircraft.	2 March 2012
4	UNMIT should ensure that fuel tanks and equipment are properly maintained through scheduling regular maintenance.	Operational	Important	C		Implemented

1. C = closed, O = open

2. Date provided by UNMIT in response to recommendations.