



INTERNAL AUDIT DIVISION

REPORT 2016/145

Audit of fuel management in the United Nations Support Office in Somalia

There was a need to address significant control weaknesses over monitoring and analysis of fuel consumption and strengthen controls over fuel reserves and the quality assurance surveillance mechanism

6 December 2016
Assignment No. AP2016/638/03

Audit of fuel management in the United Nations Support Office in Somalia

EXECUTIVE SUMMARY

The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the management of fuel in the United Nations Support Office in Somalia (UNSOS). The audit covered the period from 1 July 2014 to 31 March 2016 and included monitoring and analysis of fuel consumption, review of contractors' fuel operations, management of contractors' performance, and capacity of the Fuel Unit.

UNSOS ensured uninterrupted fuel supply for the African Union Mission in Somalia's (AMISOM) operations, implemented procedures to verify contractors' invoices and avail of prompt payment discounts, and adequately monitored contractors' performance. While UNSOS had taken steps to improve controls over the consumption of bulk fuel issued to AMISOM since the previous OIOS audit in 2014, there still remained serious control weaknesses to ensure UNSOS was systematically analyzing, identifying and investigating unusual fuel consumption patterns, and taking prompt corrective actions to address them. UNSOS also needed to ensure adequacy of: strategic and local fuel reserves; procedures over fuel importation; quality assurance mechanisms; and staffing resources assigned to the Fuel Unit.

The Office of Internal Oversight Services made four recommendations. To address issues identified in the audit, UNSOS needed to:

- Effectively supervise the maintenance of strategic and local fuel reserves;
- Ensure that all fuel imported under UNSOS duty-free privileges was used exclusively for UNSOS-supported operations;
- Strengthen the quality assurance surveillance mechanism over fuel supplied by contractors; and
- Expedite the recruitment of staff for five vacant posts in the Fuel Unit.

CONTENTS

| | <i>Page</i> |
|--|-------------|
| I. BACKGROUND | 1 |
| II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY | 1 |
| III. OVERALL CONCLUSION | 1-2 |
| IV. AUDIT RESULTS | 2-6 |
| A. Fuel monitoring | 2-4 |
| B. Contractor operations | 4-5 |
| C. Invoice processing | 5 |
| D. Resource capacity | 5-6 |
| V. ACKNOWLEDGEMENT | 6 |
| ANNEX I Status of audit recommendations | |
| APPENDIX I Management response | |

Audit of fuel management in the United Nations Support Office in Somalia

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of fuel management in the United Nations Support Office in Somalia (UNSOS).
2. UNSOS had three fuel contractors that were responsible for: (a) procuring, transporting, storing and dispensing fuel to designated equipment; and (b) maintaining fuel operating stocks and local and strategic reserves. The contractors: procured 84 million litres of ground fuel and three million litres of aviation fuel; operated 12 fuel storage and distribution points; and provided fuel to over 3,095 items of equipment including combat, heavy and medium utility vehicles, generators and kitchen burners.
3. The UNSOS Fuel Unit is responsible for: (a) managing the fuel contracts; (b) monitoring and analyzing fuel consumption and initiating investigations of suspected fuel fraud; (c) inspecting fuel facilities; and (d) operating the Mission's nine distribution points. The Unit is headed by a Chief at the Field Service (FS)-6 level that reports to the Chief, Supply Section at the P-5 level. The Unit has 12 authorized posts comprising seven international staff, four national staff and one United Nations Volunteer.
4. UNSOS budgets for fuel for 2014/15 and 2015/16 were \$57.6 million and \$65.2 million, respectively.
5. Comments provided by UNSOS are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

6. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the management of fuel in UNSOS.
7. This audit was included in the 2016 risk-based work plan of OIOS due to the operational and financial risks associated with the supply of fuel to African Union Mission in Somalia (AMISOM) operations.
8. OIOS conducted this audit from March to May 2016. The audit covered the period from July 2014 to June 2016. Based on an activity-level risk assessment, the audit covered higher and medium risks in the management of fuel by UNSOS, which included: contractors' fuel operations; management of fuel contractors' performance; compliance with guidelines and procedures; and the capacity of the Fuel Unit.
9. The audit methodology included: (a) interviews of key personnel; (b) review of relevant documentation; (c) analytical reviews of data; (d) testing transactions based on judgmental sampling; and (e) physical inspection of fuel distribution points in Baidoa and Mogadishu.

III. OVERALL CONCLUSION

10. UNSOS ensured an uninterrupted fuel supply for AMISOM operations, implemented procedures to verify contractors' invoices and avail of prompt payment discounts, and adequately monitored contractors' performance. However, UNSOS needed to: (a) monitor consumption of bulk fuel issued to AMISOM by systematically analyzing, identifying and investigating unusual fuel consumption patterns

and taking prompt corrective actions; (b) strengthen the monitoring of local and strategic fuel reserves; (c) ensure that all fuel imported under UNSOS duty-free privileges is used exclusively for UNSOS-supported operations; (d) strengthen the quality assurance surveillance mechanism; and (e) expedite the recruitment for five vacant posts of the Fuel Unit.

IV. AUDIT RESULTS

A. Fuel monitoring

Need to effectively monitor and analyze fuel consumption

11. The Department of Peacekeeping Operations/Department of Field Support (DPKO/DFS) Fuel Operations Manual (the Fuel Manual) requires UNSOS to: (a) monitor and analyze fuel distribution and consumption, implement inspection regimes, and investigate unreasonable fuel consumption patterns; and (b) secure, safeguard and restrict access to fuel storages. The UNSOS Fuel Operations standard operating procedures require users of fuel-consuming assets to report fuel consumption on a monthly basis and the Fuel Unit to review them.

12. OIOS review of a sample of AMISOM fuel consumption reports, monthly fuel issue reports of the contractor totaling \$4.1 million; contingent-owned equipment verification reports and 425 orders, as well as the activities of the Fuel Fraud Prevention Cell indicated that UNSOS had taken steps to improve controls over the issuance of fuel to AMISOM. These improvements included: (a) approval of contingents' bulk fuel replenishment requests by UNSOS and AMISOM; (b) reconciliation of fuel issued to contingents against approved bulk fuel requests; and (c) issuance and control of fuel cards, with unique numbers for equipment and vehicles, used by holders to draw fuel from fuel distribution points.

13. However, OIOS review noted that UNSOS: continued to accept from AMISOM inaccurate and/or incomplete fuel accountability reports related to fuel consumed; and were not systematically analyzing reports received from AMISOM to identify and investigate unusual consumption patterns and take prompt corrective actions. For example, OIOS analysis of fuel dispensed to AMISOM vehicles with large tanks (each with a maximum capacity of 400 litres) showed that in 566 of 2,814 instances in July 2015, the contractor dispensed a total of 255,000 litres to 122 vehicles compared to the maximum requirement of 226,000 litres for these 566 instances. OIOS also noted that UNSOS did not collaborate with AMISOM to adequately safeguard generator power houses including maintaining and monitoring appropriate security measures like the use of guards or locks, where fuel was maintained. There was a similar situation at the Mogadishu International airport camp.

14. UNSOS was also not analyzing fuel consumed by its self-accounting units such as the Transport and Engineering Sections.

15. The above resulted because UNSOS had not implemented effective measures to ensure: (a) AMISOM effectively monitored and correctly reported the use of bulk fuel supplied to contingents; (b) the Fuel Fraud Prevention Cell analyzed fuel consumption to identify and investigate unusual consumption patterns and take prompt corrective actions; and (c) fuel storage sites were properly secured. The Cell only focused on tasks such as spot inspections and training contingent fuel handlers on fuel reporting requirements.

16. As a result, there were unmitigated risks of pilferage of fuel. For example, according to the Special Investigations Unit, there were six reported incidents of fuel theft at power houses, and 3.3

million litres of fuel, valued at \$4.7 million, were pilfered from January to September 2014 at the Mogadishu airport fuel distribution point.

17. Since the control weaknesses identified by the present audit were raised in the 2014 OIOS audit report on fuel management and the related recommendation is still pending implementation, OIOS did not raise a recommendation in this report.

Need to strengthen monitoring of local and strategic reserves

18. The Fuel Manual and the fuel contract require UNSOS to ensure the contractor holds 30 days' supply of strategic fuel reserves totaling three million litres and 7 to 30 days' supply of local reserves totaling 418,500 litres in various locations in Somalia. The UNSOS Fuel Operations standard operating procedures require the Fuel Unit to maintain proper records of fuel stock.

19. OIOS review of a sample of UNSOS fuel records and observation of the contractor's physical verification of fuel in tanks at one distribution point indicated that UNSOS was monitoring stocks at five of the six distribution points using reports generated by the contractor's automatic tank gauging (ATG) system (an acceptable industry practice). The contractor: (a) held 30 days' strategic reserves at one location and more than the 7 to 30 days' supply of local reserves at the six distribution points; and (b) maintained fuel records and reported fuel stocks, including reserves, to UNSOS on a daily basis.

20. However, UNSOS used the contractor's manual returns that were unreliable and not the ATG at one distribution point that was established in November 2015 and for the strategic reserves at the Mogadishu Seaport that had been expanded in May 2016. Also, UNSOS did not physically verify the local reserve stock held by the contractor at one of six distribution points and the strategic fuel reserves at the Mogadishu Seaport to confirm existence and conformity to reserve requirements.

21. The above resulted because UNSOS did not: (a) implement measures to ensure the contractor used the ATG system at all fuel points; and (b) travel to all locations to verify local reserves and review procedures in place due to security concerns. As a result, there was operational risk that UNSOS may run short of fuel when it is needed, particularly in high-risk security environments.

(1) UNSOS should: (a) require the contractor to install the automatic tank gauging system at all distribution points where local and strategic reserves are stored and use the system for reporting; and (b) with the assistance of the African Union Mission in Somalia, conduct periodic physical verification of fuel reserves held at high-risk security locations.

UNSOS partially accepted recommendation 1 and stated that the contractor had installed the ATG system at the Belet Wayne dispensing point but some missing parts were needed to operationalize the system and the contractor was in the process of relocating the strategic fuel reserves sites. The ATG system would allow electronic monitoring of all tanks; hence there would be no requirement to conduct periodic physical verification of fuel reserves. Recommendation 1 remains open pending receipt of evidence that the contractor has installed ATG in all locations and is using it for reporting purposes.

Need to monitor fuel importation against tax exoneration granted the contractor

22. The agreement between the United Nations and the Federal Republic of Somalia concerning the status of the United Nations Assistance Mission in Somalia authorizes UNSOS or its fuel contractors to import fuel duty-free for its exclusive use. The fuel contract requires UNSOS, within seven working days

prior to the arrival of any shipment, to obtain from the contractor copies of the master or other final bills of lading and pro-forma invoices covering each shipment.

23. A review of a sample of 61 note verbales for the importation of fuel and other products submitted by UNSOS to the Government of Somalia and AMISOM's requests indicated that UNSOS did not implement any procedures to confirm whether all fuel imported duty-free by the contractor using UNSOS duty-free privileges was used exclusively by UNSOS and its supported operations. For example, UNSOS did not: (a) obtain supporting documents such as copies of the master, or other final bills of lading and pro-forma invoices for fuel imported in connection with 21 of the 61 note verbales; (b) reconcile fuel received by the contractor with the volume of fuel approved for importation in the note verbales; and (c) reconcile fuel received by dispensaries and equipment with fuel received in central storage sites.

24. The above was because UNSOS had not established and implemented a monitoring mechanism to ensure that all fuel imported under UNSOS duty-free privileges was used exclusively by UNSOS and its supported operations. As a result, the Organization was exposed to reputational risk associated with misuse of UNSOS duty-free privileges for the importation of fuel.

(2) UNSOS should establish and implement procedures to ensure that all fuel imported by contractors using UNSOS duty-free privileges is used exclusively for UNSOS-supported operations.

UNSOs accepted recommendation 2 and stated that the Fuel Unit had formulated a worksheet to monitor duty-free fuel and the contractor was currently procuring duty-free fuel locally at no additional cost to the Organization beyond the contractually stipulated prices. Hence there was no remaining balance of duty-free fuel until the next shipment was received. Recommendation 2 remains open pending receipt of evidence that fuel imported or procured using the Organization's duty-free is used for the Mission's exclusive operations.

B. Contractors operations

Need to strengthen the quality assurance surveillance mechanism

25. The Fuel Manual requires UNSOS to periodically inspect and test contractors' fuel storage and dispensing equipment to ensure that fuel is distributed at the desired volume and quality.

26. A review of the UNSOS quality surveillance mechanism indicated that the Fuel Unit did not periodically inspect and test contractors' fuel dispensing equipment, and relied only on the fuel receiving reports from AMISOM fuel officers regarding the quality of bulk fuel. This was because although the Fuel Unit had drafted SOPs on quality surveillance, UNSOS management had not yet approved them for implementation. As a result, there were operational and financial risks that: (a) contractors provided substandard fuel that could adversely impact on the functionality of fuel-consuming assets; and (b) UNSOS paid for substandard and/or an inaccurate volume of fuel.

(3) UNSOS should: (a) expedite the finalization and implementation of the standard operating procedures on quality assurance surveillance programme; and (b) implement a plan to periodically inspect and test the contractor's fuel storage and dispensing equipment and ensure action is taken by the contractors' to address any identified deficiencies.

UNSOs accepted recommendation 3 and stated that it was working to finalize the quality assurance surveillance mechanism and that the Fuel Unit had begun inspection of various sites in Somalia and

Kenya. The inspection regime would be stepped up as additional staff resources are deployed. Recommendation 3 remains open pending receipt of evidence that UNSOS has finalized and implemented SOPs on the quality assurance surveillance programme and is conducting the required inspections.

UNSOS adequately monitored the performance of fuel contractors

27. The Fuel Manual requires UNSOS to use appropriate performance measures and key performance indicators (KPIs) in evaluating and monitoring contractors' performance.

28. A review of minutes of 17 performance evaluation meetings held by UNSOS with contractors indicated that UNSOS was adequately evaluating and monitoring contractors' performance against the established KPIs, and submitting the relevant reports to the Procurement Division at the United Nations Headquarters. OIOS concluded that UNSOS had implemented adequate controls to ensure contractors' performance was monitored.

C. Invoice processing

There were adequate controls over the processing of contractors' invoices

29. The Fuel Manual and fuel contracts require UNSOS to: (a) pay contractors' invoices within 30 working days of receipt to avail prompt payment discounts; and (b) verify correctness of invoices against original fuel slips and other related supporting documentation.

30. A review of invoice processing indicated that UNSOS obtained all detailed invoices for the audit period and related supporting documentation and vetted these invoices and certified that the fuel had been received. UNSOS paid invoices within 30 days and received prompt payment discounts of \$1.6 million related to 941 invoices valued at \$86.9 million. OIOS concluded that UNSOS implemented adequate controls over the processing of fuel-related invoices.

D. Resource capacity

Need to strengthen staff resource capacity of the Fuel Unit

31. The Fuel Manual requires UNSOS to have sufficient, competent and experienced personnel to manage fuel operations including but not limited to: overseeing contractors' operations; verifying the qualifications of and training contingent fuel handlers; processing fuel orders; reporting on fuel activities; reviewing and certifying invoices; and fraud/loss prevention functions.

32. UNSOS was responsible for providing support activities including supply of fuel to AMISOM. A review of the Fuel Unit's structure indicated that the Unit had 12 posts, of which 5 (i.e., 3 Fuel Officer and 2 Fuel Assistant posts approved in the 2014/15 budget) were vacant at the time of the audit. As a result, the Unit was not performing some critical functions referred to above such as the implementation of quality surveillance programme, adequate monitoring and analyses of fuel consumption, and monitoring fuel deliveries at contingents' locations.

33. UNSOS advised that the: (a) selection of three staff was in progress; and (b) vacancy announcement for two posts had not been issued due to differences within UNSOS on required skill sets and functions for these posts.

(4) UNSOS should take appropriate actions to expedite the recruitment for the five vacant posts in the Fuel Unit.

UNSOS accepted recommendation 4 and stated that it had initiated the recruitment of one Field Service and two Professional level fuel officers. Recommendation 4 remains open pending receipt of evidence that the five vacant posts of the Fuel Unit have been filled.

V. ACKNOWLEDGEMENT

34. OIOS wishes to express its appreciation to the management and staff of UNSOS for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns
Director, Internal Audit Division
Office of Internal Oversight Services

Audit of fuel management in the United Nations Support Office in Somalia

| Rec. no. | Recommendation | Critical ¹ / Important ² | C/ O ³ | Actions needed to close recommendation | Implementation date ⁴ |
|----------|--|---|----------------------|---|----------------------------------|
| 1 | UNSOS should: (a) require the contractor to install the automatic tank gauging system at all distribution points where local and strategic reserves are stored and use the system for reporting; and (b) with the assistance of the African Union Mission in Somalia, conduct periodic physical verification of fuel reserves held at high-risk security locations. | Important | O | Receipt of evidence that the contractor has installed ATG in all locations and is using it for reporting purposes. | 31 December 2016 |
| 2 | UNSOS should establish and implement procedures to ensure that all fuel imported by contractors using UNSOS' duty-free privileges is used exclusively for UNSOS-supported operations. | Important | O | Receipt of evidence that fuel imported or procured using the Organization's duty-free privilege is used for the Mission's exclusive operations. | November 2016 |
| 3 | UNSOS should strengthen the quality assurance surveillance mechanism by: (a) expediting the finalization and implementation of the standard operating procedures on quality assurance surveillance programme; and (b) implementing a plan to periodically inspect and test the contractor's fuel storage and dispensing equipment and ensure action is taken by the contractors' to address any identified deficiencies. | Important | O | Receipt of evidence that UNSOS has finalized and implemented the SOPs on the quality assurance surveillance programme and conducted the required inspections. | 31 December 2016 |
| 4 | UNSOS should take appropriate actions to expedite the recruitment for the five vacant posts in the Fuel Unit. | Important | O | Receipt of evidence that the five vacant posts of the Fuel Unit have been filled. | May 2017 |

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

³ C = closed, O = open

⁴ Date provided by UNSOS in response to recommendations.

APPENDIX I


Management Response



Interoffice Memorandum

To: Mr. Bolton Tarleh Nyema, Chief
Peacekeeping Audit Service
Internal Audit Division,
OIOS

Ref: UNSOS/1116/M.056

From: Hubert Price 
Head of UNSOS

Date: 13 November 2016

Subject: UNSO – Draft report on an audit of fuel management in the United Nations Support Office in Somalia (AP2016/638/03)

1. Further to your memorandum of 31 October 2016, please find attached the UNSOS response to the subject draft report.
2. As we work towards the full implementation of the earlier recommendation on the monitoring and analysis of fuel consumption by AMISOM and UNSOS, we acknowledge that no further recommendation has been issued in that respect.
3. We thank you for your continued support to the work of UNSOS.

Best regards

cc: Mr. Amadu Kamara, Director, UNSOS
Mr. Harjit Dhindsa, Deputy Director, UNSOS
Mr. Clark Toes, Chief Service Delivery, UNSOS
Mr. Dolapo Kuteyi, Senior Administrative Officer, UNSOS
Mr. Alexander Kasatkin, Chief Life Support Services, UNSOS
Mr. James Alvord, Chief Fuel Unit, UNSOS
Mr. James Suglo, Chief Resident Auditor, Internal Audit Division, OIOS
Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division, OIOS

Attachment: UNSOS responses to four audit recommendations

Management Response

Audit of fuel management by the United Nations Support Office in Somalia

| | Recommendation | Critical¹/ Important² | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|----|---|--|-------------------------------|--|--------------------------------|---|
| 1. | UNSOS should: (a) require the contractor to install the automatic tank gauging (ATG) system at all distribution points where local and strategic reserves are stored and use the system for reporting; and (b) with the assistance of AMISOM, conduct periodic physical verification of fuel reserves held at high-risk locations | Important | Partially | Chief Fuel Unit | 31 Dec 2016 | <p>UNSOS management partially accepts this recommendation and wishes to draw the attention of the auditors to the following:</p> <p>(a) The automatic tank gauging (ATG) system has been installed in Belet Weyne. However, some missing parts are required to operationalize the system. The contractor is also in the process of relocating the strategic fuel reserve from the Costalina Terminal to the Somalia Fuel Company Terminal. Once the product is transferred to the new tank, ATG will be installed. All ATG systems are expected to be operational by 31 December 2016.</p> <p>(b) UNSOS wishes to remind the auditors that the ATG system will allow electronic monitoring of all tanks, hence there will be no requirement to conduct periodic physical verification of fuel reserves held at high-risk locations. Management respectfully requests the withdrawal of part (b) of this recommendation.</p> |
| 2. | UNSOS should establish and implement procedures to ensure that all fuel imported by contractors using UNSOS' duty-free privileges is used exclusively for UNSOS-supported operations. | Important | Yes | Chief Fuel Unit | Implemented | Management seeks to inform the auditors that the Fuel Unit has formulated a worksheet to monitor duty free fuel. Currently, the contractor is temporarily procuring duty-paid fuel locally, at no additional cost to the UN beyond the contractually stipulated price. Hence there is no remaining balance of duty free fuel until the next shipment is received. |

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Management Response

Audit of fuel management by the United Nations Support Office in Somalia

| | | | | | | |
|----|--|-----------|-----|--------------------|-------------|--|
| | | | | | | UNSOs therefore requests that this recommendation be recorded as implemented. |
| 3. | UNSOs should strengthen the quality assurance surveillance mechanism by: (a) expediting the finalization and implementation of the standard operating procedures on quality assurance surveillance programme; and (b) implementing a plan to periodically inspect and test the contractor's fuel storage and dispensing equipment and ensure action is taken by the contractors' to address any identified deficiencies. | Important | Yes | Chief Fuel Unit | 31 Dec 2016 | <p>Management seeks to inform the auditors that:</p> <p>(a) UNSOs Fuel Unit is working to finalize the quality assurance surveillance mechanism (QASP) which is scheduled for completion by 31 December 2016.</p> <p>(b) (b) The Fuel Unit has begun inspections of the various contractor sites in Somalia and Kenya (Wilson, JKIA, Wajir and Mombasa). A photographic report of the fuel equipment inspection and physical inventory, together with a joint inspection into-plane surveillance checklist are attached herewith as Annex II and III.</p> <p>The inspection regime will be stepped up as additional staff resources are deployed</p> |
| 4. | UNSOs should take appropriate actions to expedite the recruitment for five vacant posts of the Fuel Unit. | Important | Yes | Chief Life Support | May 2017 | Management seeks to inform the auditors that this recommendation is under implementation as UNSOs is currently recruiting one P-4, two P-3 and one FS-7 fuel officers. |