



Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT 2013/077

Audit of fuel management in the United Nations Interim Force in Lebanon

Overall results relating to fuel management in UNIFIL were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress

**FINAL OVERALL RATING: PARTIALLY
SATISFACTORY**

26 September 2013

Assignment No. AP2013/672/02

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AUDIT REPORT

Audit of fuel management in the United Nations Interim Force in Lebanon

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of fuel management in the United Nations Interim Force in Lebanon (UNIFIL).
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. UNIFIL had two turnkey contracts for the purchase of fuel. The contract for the provision of ground fuel and aviation fuel had a Not-to Exceed (NTE) amount of \$102 million for the period from December 2008 to August 2013. The other contract for the provision of gas and liquefied petroleum gas had a NTE amount of \$598,000 for the period from July 2012 to June 2013.
4. The UNIFIL Fuel Unit was responsible for managing fuel contracts as well as overseeing the receipt, storage, distribution and record keeping of fuel in the Mission Electronic Fuel Accounting System (MEFAS). The Fuel Unit was headed by a P-4 and had four international staff, 11 national staff and five military personnel.
5. The budgets for 2011/12 and 2012/13 were as shown below:

Table 1: Approved budgets for fuel in UNIFIL

<i>Description</i>	<i>2011/12 (\$ million)*</i>	<i>2012/13 (\$ million)</i>
Fuel for facilities and infrastructure	\$18.7	\$16.2
Fuel for ground transportation	\$7.1	\$6.4
Fuel for air transportation	\$0.7	\$0.8
Total	\$26.5	\$23.4

Source: UNIFIL Fuel Data report for December 2012.

*This figure included the additional allotments approved during the year.

6. Comments provided by UNIFIL are incorporated in italics.

II. OBJECTIVE AND SCOPE

7. The audit was conducted to assess the adequacy and effectiveness of UNIFIL governance, risk management and control processes in providing reasonable assurance regarding the **effective management of fuel in UNIFIL**.
8. This audit was included in the 2013 OIOS' risk-based work plan at the Mission's request taking into account operational risks associated with an interrupted fuel supply for the Mission's operations as well as the financial risks due to the cost of fuel consumed by the Mission.

9. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as one that provides reasonable assurance that adequate policies and procedures exist to guide the management of fuel, and are complied with.

10. The key control was assessed for the control objectives shown in Table 2. OIOS conducted the audit from March to May 2013. The audit covered the period from 1 July 2011 to 31 March 2013.

11. 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 determine their effectiveness.

III. AUDIT RESULTS

12. The UNIFIL governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding the **effective management of fuel in UNIFIL**. OIOS made three recommendations to address issues identified. UNIFIL had established adequate controls over fuel receipt, storage and issuance and obtained ISO9001 certification in 2012. UNIFIL also improved the monitoring of fuel consumption by generators at its Headquarters by installing meters to measure the electricity produced. However, similar measures needed to be implemented for generators at the military contingents' locations outside of its Headquarters. UNIFIL also needed to address the unauthorized electricity supplied by UNIFIL military contingents to the Lebanese Armed Forces (LAF). Subsequent to the audit, UNIFIL had implemented adequate follow up on vehicles which exceeded the standard fuel consumption rates.

13. The initial overall rating was based on the assessment of key controls presented in Table 2 below. The final overall rating is **partially satisfactory** as implementation of two important recommendations remains in progress.

Table 2: 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 in UNIFIL	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Regulatory framework

There was a need for increased monitoring over fuel consumed by generators

14. During the audit period, UNIFIL generators consumed 33.3 million liters of diesel costing \$31 million, which was 75 per cent of the total fuel consumed by the Mission. UNIFIL issued 6.9 million liters (21 per cent) to generators at UNIFIL Headquarters and the remaining 26.4 million liters (79 per cent) was issued to generators at military positions outside its Headquarters.

15. In January 2012, UNIFIL installed electricity meters on generators at its Headquarters to improve monitoring and control over fuel consumption. However, UNIFIL had not installed meters on the contingent-owned generators at 61 military positions outside its Headquarters, as troop contributing countries had not agreed to their installation. To address this, UNIFIL was planning to install external meter panels near contingent-owned generators. However, UNIFIL had not installed these meters as it had not developed an implementation plan that took into consideration factors such as assignment of responsibilities among Mission units for panel installation and readings of electricity produced at these locations.

(1) UNIFIL should install external meter panels to measure the electricity produced by all generators at military positions for monitoring and controlling fuel consumption. A target date for completion of this activity should be established.

UNIFIL accepted recommendation 1 and stated that meters had been installed in all except two positions where additional electrical works were required. UNIFIL confirmed that meters would be read routinely. Recommendation 1 remains open pending confirmation of the installation of electricity meters at all of UNIFIL military positions, and receipt of evidence that fuel consumed is being adequately monitored.

Electricity supplied without prior authorization to the local population and Lebanese Armed Forces

16. In October 2012, UNIFIL conducted inspections and confirmed reports of electricity supplied by military contingents to the local population and the LAF. While UNIFIL took immediate action to disconnect electricity supplied to the local population, it did not discontinue electricity supplied to LAF. As a result, UNIFIL military contingents continued to provide electricity to LAF at their discretion. The UNIFIL inspections of October 2012 indicated that ten military contingents had supplied electricity of 846 amperes to LAF at 25 locations, at an estimated annual cost of \$514,000.

17. UNIFIL was of the view that a limited amount of electricity could be provided to LAF positions near UNIFIL premises based on specific criteria for the security of UNIFIL personnel and premises. However, UNIFIL had not estimated the cost of this or established criteria for the provision of electricity to LAF, which needed to be reported in the Mission's annual budget in consultation with the Department of Field Support (DFS).

(2) UNIFIL should, in consultation with the Department of Field Support, determine the criteria for the provision of electricity supply to the Lebanese Armed Forces and seek approval for such provision in its annual budget submission.

UNIFIL accepted recommendation 2 and stated that a code cable from the Under-Secretary-General, DFS on 26 July 2013 regularized the interim limited supply of electricity to LAF checkpoints close to UNIFIL positions to enhance UNIFIL security and to promote Security

Council resolution 1701. UNIFIL was in the process of installing five ampere circuit breakers at 27 locations. Recommendation 2 remains open pending receipt of evidence that for future budget periods an adequate budget provision is established for providing electricity to LAF.

Monitoring of a leased vessel's fuel consumption was improved

18. UNIFIL did not implement adequate controls over the fuel issued to a vessel that it was leasing, and depended on the vendor's monthly fuel consumption reports, without independent verification. For the period from August 2012 to March 2013, it was noted that:

- (a) The hours at sea used by the vendor to justify the quantity of fuel consumed were 96 hours higher than the total actual hours at sea based on records of arrival and departure times by UNIFIL Movement Control Section; and
- (b) The vendor reported, in computing the fuel consumption, 35.5 hours of idle time at the port, which consumed 135 liters of fuel per hour. This was more than the 60 liters per hour for idle time that was stipulated in the contract. The vendor did not provide any justification for the higher fuel consumption during idle time.

19. In May 2013, UNIFIL took satisfactory action to address these issues by establishing measures to verify the accuracy of the vendor's fuel consumption reports, including the introduction of an independent physical check of the fuel balance at the end of each month.

Follow-up procedures on variances between actual and standard fuel consumed by vehicles needed to improve

20. Fuel was issued to UNIFIL vehicles at designated fuel stations and only to personnel with a valid UNIFIL identification card and driving license. Details of the vehicle, the person receiving the fuel and the quantity of fuel issued were recorded in fuel log sheets by the fuel attendant and the receipt was acknowledged by UNIFIL personnel. The log sheet data was inputted into MEFAS on a daily basis and reconciled by the Monitoring Team in the Fuel Unit. The Fuel Unit reviewed the invoiced quantity against the supporting MEFAS records and fuel log sheets prior to payment of invoices. OIOS concluded that there were adequate controls in place over fuel issued to UNIFIL vehicles.

21. The UNIFIL standard operating procedures required the Mission to analyze and follow up on fuel variances above 10 per cent of the standard fuel consumption rate for vehicles. For example, UNIFIL, during its October 2012 review of vehicles assigned to two military contingents, identified that 88 vehicles had exceeded the 10 per cent threshold. However, due to inadequate monitoring procedures, UNIFIL followed up on only 24 vehicles and obtained justifications for the discrepancies, and did not verify the reasons for the high fuel consumption by the remaining 64 vehicles.

(3) UNIFIL should systematically follow up on cases of fuel consumption by vehicles exceeding the established tolerance level in accordance with the Mission's standard operating procedures.

UNIFIL accepted recommendation 3 and provided evidence that corrective actions had been taken to strengthen control and monitoring of vehicle fuel consumption. Based on the action taken by UNIFIL, recommendation 3 has been closed.

Reporting of fuel reserves had improved

22. The UNIFIL fuel contingency plan required the maintenance of 42 days reserves of fuel. To monitor the level of fuel reserves, the Fuel Unit prepared a Daily Mission Stock Status Report for diesel and aviation fuel based on feedback from the supplier, staff and military personnel at various locations in its area of operations. However in the reporting of fuel reserves, the Fuel Unit included fuel held at the supplier's fuel stations that did not belong to UNIFIL, and did not update the quantity of one day stock at regular intervals due to the absence of an established procedure.

23. OIOS' recalculation of fuel reserves, excluding the supplier's stock and using updated quantity of one day stock between July 2011 and March 2013, indicated that the closing stock of diesel was in accordance with the 42 days requirement. However, aviation fuel in March 2013 was 63 days as opposed to 42 days.

24. In May 2013, UNIFIL took corrective action to address the issues identified and segregated the reporting of the supplier's fuel stocks from those owned by UNIFIL in its stock status report. UNIFIL also established a policy to review the quantity of one day stock on an annual basis. Based on the action taken by UNIFIL, no recommendation was made.

Aviation fuel price was now being verified

25. The fuel contract of UNIFIL stated that the invoiced price of fuel products comprised of a fixed price stated in the contract and a variable price. For diesel, petrol and kerosene, UNIFIL had adequately verified the variable prices against the unit price announced in the weekly decree by the Lebanese Ministry of Energy and Water. However for aviation fuel, UNIFIL did not verify that the variable price, which was the industry index price of Jet A-1 fuel for the Mediterranean region, citing the costly subscription for the index price. To address this, UNIFIL requested the vendor to submit a copy of the index price together with its invoice. As this procedure was implemented, starting June 2013, no recommendation was made.

Contract management was adequate

26. The Fuel Unit together with the Procurement Section put in place effective measures to monitor that fuel expenditures were within the approved NTE contract amount and arranged timely procurement actions for contract renewals. In addition, the Fuel Unit complied with the Mission's procedures on the monitoring of contractors' performance including completion of vendors' performance reports in a timely manner.

A number of standard operating procedures on fuel management had been developed

27. In May 2012, UNIFIL had obtained the ISO9001 certification for the quality system in the management of fuel. As part of the certification process, UNIFIL had developed and disseminated 12 standard operating procedures to manage the turnkey contracts for fuel supply and to physically inspect and account for all fuel products. Procedures on safety and environmental matters were also in place. These procedures had strengthened control over fuel receipt, storage and issuance.

IV. ACKNOWLEDGEMENT

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

(Signed) David Kanja
Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of fuel management in the United Nations Interim Force in Lebanon

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UNIFIL should install external meter panels to measure the electricity produced by all generators at military positions for monitoring and controlling fuel consumption. A target date for completion of this activity should be established.	Important	O	Confirmation that installation of electricity meters at all of UNIFIL military positions, and receipt of evidence that fuel consumed is being adequately monitored UNIFIL.	31 October 2013
2	UNIFIL should in consultation with the Department of Field Support determine the criteria for the provision of electricity supply to the Lebanese Armed Forces and seek approval for such provision in its annual budget submission as required.	Important	O	Receipt of evidence that for future budget periods an adequate budget provision is established for providing electricity to LAF.	31 October 2013
3	UNIFIL should systematically follow up on cases of fuel consumption by vehicles exceeding the established tolerance level in accordance with the Mission's standard operating procedures.	Important	C	Action taken	Implemented

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal 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 UNIFIL

APPENDIX I

Management Response



Inter Office Memorandum

06 September 2013

To: Ms. Eleanor T. Burns
Chief Peacekeeping Audit Service
Internal Audit Division, OIOS

From: Girish Sinha
Director of Mission Support

A handwritten signature in black ink, appearing to read "Girish Sinha", written over the printed name and title.

Subject: Assignment No. AP2013/672/02 – Audit of Fuel Management in United Nations Interim Force in Lebanon (UNIFIL)

1. We refer to your memorandum on the audit of fuel management in UNIFIL No. IAD: MO130810 dated 14 August 2013. Please find attached UNIFIL response to the three (3) recommendations contained in the subject draft audit report.
2. In following the usual procedure, copies of supporting documents will only be provided to the MERAO based at UNIFIL HQ and not be accompanied in this memorandum.

Best regards

APPENDIX I

MANAGEMENT RESPONSE

Audit of Fuel Management in the United Nations Interim Force in Lebanon

Rec. No.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNIFIL should install external meter panels to measure the electricity produced by all generators at military positions for monitoring and controlling fuel consumption. A target date for completion of this activity should be established.	Important	Yes	Chief, ESS	31 Oct 13	All positions have been installed with meters except for two positions, where they require electrical works to suit the wiring for installation of meters. ESS is assessing the amount of works and cost impact of this arrangement. Meters will be read routinely.
2	UNIFIL should in consultation with the Department of Field Support determine the criteria for the provision of electricity supply to the Lebanese Armed Forces and seek approval for such provision in its annual budget submission as required.	Important	Yes	Chief, ESS	31 Oct 13	UNIFIL consulted DFS via its code cable dated 03 July 2013 and received a code cable response from USG/DGS on 26 July 2013 concerning regularizing the interim limited supply of electricity to the Lebanese Armed Forces (LAF) checkpoints close to UNIFIL positions to enhance UNIFIL security and promoting SCR 1701 (Annex A). Engineering Section in coordination with JLOC is working on the installation of the 5 Amps circuit breaker at each location.
3	UNIFIL should systematically follow up on cases of fuel consumption by vehicles	Important	Yes	Chief Supply	31 Aug 13 (Fully	The Mission has fully implemented this recommendation.

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Rec. No.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	exceeding the established tolerance level in accordance with the Mission's standard operating procedures.				Implemented)	<p>Fuel Unit has taken corrective actions to strengthen control and monitoring of vehicle fuel consumption by:</p> <ol style="list-style-type: none"> 1. Ensuring that adjustments are made to standard fuel consumption rates and are properly supported /justified; 2. All sampled cases where actual fuel consumption exceeded 10 per cent of standard fuel consumption rates were promptly followed up (Annexes B, C, and D).