



INTERNAL AUDIT DIVISION

REPORT 2014/146

Audit of fuel management in the United Nations Mission in South Sudan

Overall results relating to the effective management of fuel operations in the United Nations Mission in South Sudan were initially assessed as partially satisfactory. Implementation of four important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY
SATISFACTORY

19 December 2014
Assignment No. AP2014/633/04

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AUDIT REPORT

Audit of fuel management in the United Nations Mission in South Sudan

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of fuel management in the United Nations Mission in South Sudan (UNMISS).
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. UNMISS sourced and managed fuel under a turnkey contract that was established by the former United Nations Mission in Sudan in February 2007 and amended in December 2011 to cover UNMISS operations. Subsequently in March 2014, a new contract was established with a not-to-exceed amount of \$325 million for a period of three years. Fuel operations were also governed by the Department of Peacekeeping Operations/Department of Field Support (DPKO/DFS) Fuel Operations Manual and UNMISS standard operating procedures for fuel.
4. UNMISS had 26 fuel storage and dispensing points throughout the country. Of these, the contractor operated 16 and UNMISS operated the remaining 10 sites. The Fuel Unit was responsible for the overall management of fuel operations. The Unit was headed by an Officer-in-Charge at the P-2 level and had 27 authorized posts including 5 international staff, 1 United Nations volunteer, 14 national staff, 4 military staff officers, and 2 military support staff. In addition, 44 military personnel were assigned to the Unit. The budget for petroleum, oil and lubricants for fiscal years 2011/12, 2012/13 and 2013/14 was \$70 million, \$75 million and \$98 million respectively.
5. Comments provided by UNMISS are incorporated in italics.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNMISS governance, risk management and control processes in providing reasonable assurance regarding the **effective management of fuel operations in UNMISS**.
7. The audit was included in the 2014 risk-based work plan of OIOS because of the operational and financial risks related to possible interruptions and losses of fuel supplies for UNMISS operations.
8. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as the one that provides reasonable assurance that policies and procedures: (a) exist to guide the effective management of fuel; (b) are implemented consistently; and (c) ensure the reliability and integrity of financial and operational information.
9. The key control was assessed for the control objectives shown in Table 1.
10. OIOS conducted this audit from May to July 2014. The audit covered the period from 11 July 2011 (the start of the Mission) to 31 May 2014.

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

III. AUDIT RESULTS

12. The UNMISS governance, risk management and control processes examined were initially assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **effective management of fuel operations in UNMISS**. OIOS made five recommendations to address the issues identified. UNMISS had implemented adequate measures to manage local and strategic fuel reserves, and ensured that fuel issuances to individuals and equipment were properly authorized and recorded. However, UNMISS needed to: (a) independently verify and reconcile quantities of duty-free fuel procured by the contractor with the actual quantities delivered to UNMISS; (b) ensure adequate oversight over fuel sites; (c) investigate and resolve reported cases of fuel misuse in a timely manner; (d) establish emergency response plans for in-house fuel operations; and (e) expedite the recruitment of the Chief of Fuel Unit

13. The initial overall rating was based on the assessment of key control presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of four important recommendations remains in progress.

Table 1: Assessment of key control

Business objective	Key control	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 in UNMISS	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

Regulatory framework

Inadequate procedures to monitor the Mission’s duty-free privilege for fuel importation

14. The Status of Forces Agreement signed between the Government of South Sudan and UNMISS exempted fuel procured by contractors for the sole use of UNMISS from customs duties and charges. The UNMISS standard operating procedures for fuel also required accurate accounting and monitoring of duty-free fuel imported by the contractor to prevent fraud and/or misappropriation. An analysis of fuel records during the audit period indicated that the Mission received 68,771,544 litres of diesel and 52,731,479 litres of Jet A-1 fuel. However, this was less than the total quantity reflected on the tax exemption certificates issued by UNMISS to the fuel contractor, by 60,685 litres of diesel and 760,066

¹ A rating of “**partially satisfactory**” means that important (but not critical or pervasive) deficiencies exist 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.

litres of Jet A-1. This resulted as UNMISS relied on data provided by the contractor and did not independently verify and reconcile quantities on tax exemption certificates with actual fuel quantities received by the Mission.

15. The Fuel Unit explained that it did not check the actual quantities of duty-free fuel imported by the contractor because: (a) the Government custom authorities were required to monitor all fuel imported duty-free for UNMISS; and (b) there was no risk of financial loss as the Mission only paid for fuel it consumed. Nonetheless, as UNMISS was directly responsible for fuel procured under the Status of Forces Agreement, it needed to ensure its proper accounting to mitigate the risk of imported fuel being incorrectly diverted and to safeguard its reputation.

(1) UNMISS should establish a monitoring and reconciliation mechanism to ensure that duty-free fuel procured by the contractor is used solely by the Mission.

UNMISS accepted recommendation 1 and stated that it would run a monthly import reconciliation report based on fuel truck listing to be submitted to and acknowledged by the South Sudan Customs Services in Juba. Recommendation 1 remains open pending receipt of evidence that a monitoring and reconciliation mechanism has been established to ensure that fuel imported by the contractor is used solely by UNMISS.

Adequate fuel reserves were maintained in all but one location due to insecurity along supply routes

16. The UNMISS fuel turnkey contract required the contractor to maintain local reserves of 2.4 million litres of diesel in 20 locations and 1.7 million litres of Jet A-1 fuel in 11 locations. In addition, the contractor was required to maintain strategic fuel reserves in 19 locations totaling 2.8 million litres of diesel and 2.1 million litres of Jet A-1.

17. A visit to 10 of the 26 fuel storage and dispensing sites indicated that the contractor maintained: (a) adequate levels of diesel at in-house fuel dispensing sites to sustain operations; and (b) the stipulated level of local and strategic reserves of Jet A-1 and diesel in all locations except for one where there was a shortfall of 228,944 litres of diesel and 181,121 litres of Jet A-1. This was a result of the insecurity along the resupply routes to the fuel site. In addition, a review of 22 of 194 fuel status reports for the period from 1 July 2011 to 31 May 2014 indicated that the UNMISS Fuel Unit reviewed and analyzed the adequacy of stock levels of diesel and Jet A-1 fuel on a daily basis. OIOS concluded that adequate procedures were in place in all but one location to ensure fuel contractors maintained the required levels of strategic and local reserves and strategic stocks.

There was inadequate oversight over fuel operating sites

18. The DPKO/DFS Fuel Operations Manual required: (a) fuel dispensing sites to be secured with strong fencing to prevent theft; (b) regular site inspections to ascertain that equipment and infrastructure were functioning properly; and (c) staff handling fuel to wear protective clothing as a safeguard against health hazards. Also, UNMISS standard operating procedures required monthly quality assurance and compliance visits to fuel sites to ascertain that the contractor complied with terms of the contract.

19. During the audit period, the Fuel Unit conducted 197 out of the 464 inspections of contractor-operated sites that it was required to conduct. A review of 35 of the 197 inspection reports indicated recurring issues related to fuel spillages. The contractor was in the process of addressing these issues but progress was delayed due to the crisis and insecurity in the country limiting movements of the contractor. Further, physical inspections of 4 of the 10 in-house fuel operation sites indicated that in all four locations: (a) there was no fencing or other protective barrier around the containerized storage and

distribution systems, due to competing priorities for the UNMISS Engineering Section, increasing the risk of theft; and (b) due to lack of adequate oversight, staff members did not wear protective equipment. UNMISS explained plans were in progress to commence construction of the fencing and containment pads and provide protective equipment for staff.

20. In addition, these fuel sites were operated by non-fuel staff that had other work responsibilities and there was inadequate monitoring of these staff members by regional fuel officers. UNMISS had also not developed procedures or checklists for systematically documenting results of periodic inspections of in-house fuel sites.

21. As a result, there was an increased risk of loss of fuel through theft, and environmental risks due to soil contamination. For example, there were recurring reports of fuel spillages due to the lack of concrete flooring to protect the soil.

(2) UNMISS should: (a) implement procedures to ensure fuel site inspections are conducted when required and the results documented, and appropriate related remedial actions are taken; and (b) expedite the construction of fences and containment pads at fuel dispensing sites and provision of protective equipment to fuel staff.

UNMISS accepted recommendation 2 and stated that its fuel standard operating procedures were revised in July 2014 and the upgrading of standards for in-house operated sites was in progress. UNMISS would also provide fencing and concrete spill containment pads and was requesting protective equipment for fuel staff. Recommendation 2 remains open pending receipt of evidence that fuel inspections are being done and properly documented, and enhanced security and environmental measures are implemented.

Suspected cases of misuse of fuel were not reported and resolved in a timely manner

22. The UNMISS fuel standard operating procedures required the Fuel Unit to: review and analyze fuel consumption levels to monitor compliance with standard fuel consumption rates, and follow up on suspected fraud and wastage to deter further abuses.

23. A review of monitoring and fuel consumption reports of vehicles and generators for the period from 1 January 2013 to 31 May 2014 indicated that 1,498 cases of suspected misuse of fuel were referred to respective self-accounting units for explanation. Of these, 116 cases were subsequently referred to the Special Investigations Unit for investigation. At the time of the audit, the Special Investigations Unit had only investigated 25 cases; however, subsequent to the audit the Unit had investigated and closed the remaining 91 cases. Some 36 of the 91 cases involved theft of fuel from 43 United Nations vehicles by 36 individual contractors. These cases, which occurred between January and September 2013, were reported for investigation on 23 October 2013 and it took a total of 275 days to complete the relevant investigations, by which time all 36 individual contractors had left the Mission. The delay in completing the investigations was due to lack of prioritization of the fuel cases and resulted in no action being taken against the 36 individual contractors.

(3) UNMISS should establish a mechanism to ensure that reported cases of fuel misuse are investigated and resolved in a timely manner.

UNMISS accepted recommendation 3 and stated that a mechanism was in place to ensure reported cases of fuel were investigated. Delays in investigation of fuel overconsumption occurred due to the increase in security incidents in connection to the crisis in the country and to other incidents in UNMISS compounds. Recommendation 3 remains open pending receipt of evidence that reported

cases of fuel misuse are investigated and resolved by the Special Investigations Unit in a timely manner.

In-house fuel sites had no emergency response plan

24. The DPKO/DFS Fuel Operations Manual required that emergency response plans be developed for all fuel sites. The plans were to be updated and reviewed at least once every six months or following any change that could compromise their effectiveness.

25. The fuel contractor had developed a fuel emergency response plan for each of the 16 turnkey fuel sites and this was included in its operations manual. However, UNMISS had not developed fuel response plans for the 10 in-house fuel distribution points it operated. This was because the Fuel Unit was of the opinion that the emergency response plan prepared by the Security Section adequately covered most emergency scenarios. A review of the UNMISS Security Section's response plan indicated that it was limited to non-fuel operation scenarios and did not cover emergency situations specific to fuel operations including containment of fuel and major oil spills. As a result, the Mission was not adequately prepared to respond to a major emergency at one of its fuel sites.

(4) UNMISS should develop and maintain an emergency response plan for its in-house fuel dispensing points.

UNMISS accepted recommendation 4 and had developed and disseminated an emergency response plan to all in-house operated sites. Based on the action taken by UNMISS, recommendation 4 has been closed.

Controls over the issuance of bulk fuel were adequate

26. UNMISS fuel standard operating procedures required the Fuel Unit to monitor the consumption of bulk fuel delivered to contingents. The procedures also required: all contingents to submit fuel consumption logs for previous bulk fuel received prior to new deliveries, and for contingent commanders to approve all fuel requests. In addition, the DPKO/DFS Fuel Operations Manual precluded national staff members from signing for bulk fuel deliveries to generators or utilities unless under exceptional circumstances.

27. A review of bulk fuel consumption records of 8 of the 22 contingents receiving fuel from the contractor during the audit period indicated that contingents submitted consumption reports along with approved requests for replenishment. Also, the Fuel Unit reviewed the reasonableness of requests and monitored the consumption of fuel by contingents. OIOS concluded that adequate controls were in place over the receipt and use of fuel by contingents.

The post of Chief of Fuel Unit was vacant for more than three years

28. The DPKO/DFS standard operating procedures for staff selection in peacekeeping operations and special political missions required the Chief Human Resources Officer at the start of each budget cycle to develop a recruitment plan to ensure current and projected vacant posts were filled in a timely manner.

29. The post of the Chief, Fuel Unit at the P-4 level had remained vacant since the establishment of UNMISS in July 2011. This was because the Mission had experienced difficulties in identifying suitable candidates due to a low number of candidates placed on the roster. As a result, efforts to recruit a suitable candidate were ongoing. This negatively impacted on fuel operations, contributing to some of the control weaknesses highlighted in this report.

(5) UNMISS should expedite the recruitment and onboarding of the Chief of the Fuel Unit to ensure adequate and effective management of fuel operations.

UNMISS accepted recommendation 5 and stated that it had started the recruitment process. Recommendation 5 remains open pending confirmation that the post of Chief of the Fuel Unit has been filled.

IV. ACKNOWLEDGEMENT

30. OIOS wishes to express its appreciation to the Management and staff of UNMISS 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 Mission in South Sudan

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UNMISS should establish a monitoring and reconciliation mechanism to ensure that duty-free fuel procured by the contractor is used solely by the Mission.	Important	O	Receipt of evidence that a monitoring and reconciliation mechanism has been established to ensure that fuel imported by the contractor is used solely by UNMISS.	30 September 2015
2	UNMISS should: (a) implement procedures to ensure fuel site inspections are conducted when required and the results documented, and appropriate related remedial actions are taken; and (b) expedite the construction of fences and containment pads at fuel dispensing sites and provision of protective equipment to fuel staff.	Important	O	Receipt of evidence that fuel inspections are being done and properly documented, and enhanced security and environmental measures are implemented.	30 September 2015
3	UNMISS should establish a mechanism to ensure that reported cases of fuel misuse are investigated and resolved in a timely manner.	Important	O	Receipt of evidence that reported cases of fuel misuse are investigated and resolved by the Special Investigations Unit in a timely manner.	30 September 2015
4	UNMISS should develop and maintain an emergency response plan for its in-house fuel dispensing points.	Important	C	Action taken.	Implemented
5	UNMISS should expedite the recruitment and onboarding of the Chief of the Fuel Unit to ensure adequate and effective management of fuel operations.	Important	O	Confirmation that the post of Chief of the Fuel Unit has been filled.	30 September 2015

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 UNMISS in response to recommendations.

APPENDIX I

Management Response

United Nations  Nations Unies
UNITED NATIONS MISSION IN SOUTH SUDAN
(UNMISS)

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Office of the Special Representative of the Secretary-General

To: Ms. Eleanor T. Burns, Director
Internal Audit Division, OIOS

Date: 17 December 2014

From: Ellen Margrethe Løj
Special Representative of the Secretary-General



Subject: **Draft Report on the Audit of Fuel Management in the United Nations Mission in South Sudan (Assignment No. AP2014/633/04)**

1. Reference is made to your memorandum dated 3 December 2014 on the Audit of Fuel Management in UNMISS.
2. Please find attached the comments of UNMISS on the recommendations listed in Appendix 1 of the draft report of the auditors.
3. UNMISS would like to take this opportunity to express its appreciation for the work of the auditors and for the valuable recommendations made by the auditors as a result of this audit.

Thank you and best regards.

Attachments: UNMISS comments along with annexes

cc: Mr. Paul Egunsola, Chief of Staff
Ms. Stephani L. Scheer, Director of Mission Support
Mr. James Suglo, Chief Resident Auditor
Mr. Matthew Carlton, OiC Supply Chain Management Services
Ms. Corinne Clavé, Audit Focal Point

Management Response

Audit of fuel management in the United Nations Mission in South Sudan

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted ? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNMISS should establish a monitoring and reconciliation mechanism to ensure that duty-free fuel procured by the contractor is used solely by the Mission.	Important	YES	Officer in Charge Fuel Unit	30 September 2015	The implementation of the recommendation is in progress. UNMISS will run a monthly import reconciliation report based on fuel truck listing to be submitted to and acknowledged by the South Sudan Customs Services, Ministry of Finance, in Juba.
2	UNMISS should: (i) implement procedures to ensure fuel site inspections are conducted when required and the results documented, and appropriate related remedial actions are taken; and (ii) expedite the construction of fences and containment pads at fuel dispensing sites and provision of protective equipment to fuel staff.	Important	YES	Officer in Charge Fuel Unit	30 September 2015	The implementation of the recommendation is in progress. (i) UNMISS Fuel SOP has been revised in July 2014 in order to include an Annex on operations, maintenance and operating procedures for mission operated sites (Annex P). Monthly inspection of the fuel installation and equipment are carried on and monitored as provided for in Annex 2 of Annex P of the UNMISS Fuel SOP. In addition, since September 2014, inspection reports are compiled and recorded centrally at UNMISS UNHQ in Juba. (ii) The project of upgrading the

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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.

Management Response

Audit of fuel management in the United Nations Mission in South Sudan

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted ? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						standards of UNMISS in-house operated sites is in progress. The mission spent about USD 1.5 million to replace drums with state of the art containerized refueling system, significantly improving the safety and operation standards. Fence and concrete spill containment pads will be provided as part of the standard improvement initiative. Protective Equipment for fuel staff is being requested.
3	UNMISS should establish a mechanism to ensure that reported cases of fuel misuse are investigated and resolved in a timely manner.	Important	YES	Chief Special Investigation Unit	30 September 2015	<p>The implementation of the recommendation is in progress.</p> <p>A mechanism to ensure that reported cases of fuel are investigated is already in place. However delays in investigation of fuel overconsumption occur. Such delays are mainly attributed to an increase of security incidents in connection to the crisis in the country and to other incidents at Protection of Civilians Sites in UNMISS compounds. Speed of investigation will improve as situation in the country improves.</p>
4	UNMISS should develop and maintain an emergency response plan for its in-house fuel dispensing points.	Important	YES	Officer in Charge Fuel Unit	28 August 2014	<p>This recommendation is fully implemented.</p> <p>An Emergency Response Plan has been developed and disseminated to all in-house operated sites (please refer to Annex P of UNMISS Fuel SOP and to</p>

Management Response

Audit of fuel management in the United Nations Mission in South Sudan

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted ? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						a communication dated 28 August 2014 sent to all in house reported sites here attached).
5	UNMISS should expedite the recruitment and onboarding of the Chief of the Fuel Unit to ensure adequate and effective management of fuel operations.	Important	YES	Officer in Charge Supply Chain Management Services and Chief Civilian Personnel Officer	30 September 2015	The implementation of the recommendation is in progress. UNMISS has started the recruitment process of the Chief of the Fuel unit who should be on board no later than September 2015.