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INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

TO: Mr. Atul Khare
A: Special Representative of the Secretary-General
United Nations Integrated Mission in Timor-Leste

DATE: 18 September 2008

REFERENCE: IAD: 08- 01762

THROUGH:

S/C DE:

FROM: Dagfinn Knutsen, Director
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AP2008/682/03 – Audit of aviation fuel in UNMIT**

OBJET:

1. As notified by OIOS memorandum dated 30 January 2008 we conducted an audit of aviation fuel in UNMIT.
2. Matters that arose during the audit were satisfactorily resolved with managers and staff of the UNMIT. I am pleased to inform you that the audit has not disclosed any major problems that would require your attention. The audit assignment will therefore be closed.
3. Attached, for your information, is a summary of the circumstances, explaining the processes and timelines, surrounding the procurement of aviation fuel.

cc: Mr. Hubert Price, Chief of Mission Support, UNMIT
Mr. Colin Stewart, Acting Chief of Staff, UNMIT
Mr. Jun Yamazaki, Assistant Secretary-General, OPPBA and Controller
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat
Mr. Jonathan Childerley, Chief, Oversight Support Unit, DM
Mr. Seth Adza, Operations Review Officer, Department of Field Support
Mr. Byung-Kun Min, Programme Officer, OIOS

A. Procurement processes and timelines

Pre-solicitation

1. Following are the processes and timelines relating to the pre-solicitation part of the procurement of aviation fuel:

- On 8 to 12 November 2006, representatives from UNHQ Fuel Cell assessed the Mission's fuel requirements. Based on this assessment, the Mission estimated its requirements for ground and aviation fuel.
- In its 14 December 2006 fax to the United Nations Procurement Division (UNPD), the Mission requested that it be granted a local procurement authority for two years, which was granted five days later.
- On 5 February 2007, the Mission sent out a request for proposals (RFPs) for the provision of a turnkey solution to the Mission's ground and aviation fuel requirements to 12 companies operating within the Mission area and the surrounding region. The closing date for the submission of proposals was 7 March 2007 and the estimated not-to-exceed (NTE) amount was \$2 million.

2. Based on the above timeline and the action taken by the Mission, OIOS observed the following instances of non-compliance with the Procurement Manual:

- Section 9.3.4 of the Procurement Manual states that, as a general rule, for requirements estimated to cost between \$1 million and \$5 million, a minimum of 20 vendors should be invited. The Mission did not comply with this requirement when they invited only 12 vendors to submit proposals for requirements estimated to cost \$2 million. The Mission explained that it could invite only 12 vendors to compete because of the limited market in the region.
- Section 9.3.5 of the Procurement Manual requires that a notice of expression of interest (EOI) be posted on the UNPD website for two to four weeks. UNPD and the HCC noticed this shortcoming and asked the Mission why it did not request UNPD to post an EOI for the requirements. Although UNMIT explained to UNPD that it did not post an EOI because of the difficulty in getting companies to provide a turnkey fuel contract in a remote place such as Timor-Leste, this explanation did not appear to have been provided to the HCC at its meeting on 1 June 2007.

Review of proposals received

3. Following are the processes and timelines relating to the review of proposals received for the procurement of aviation fuel:

- The Mission, acknowledging its lack of expertise on the procurement of fuel, requested the Logistics Support Division at UNHQ to assist in the technical evaluation of the proposals received.

- Of the six proposals received, only two were found to be technically compliant, i.e., the bids from Patrick Defence Logistics (PDL) and SVSC Tiger Fuels. However, after receiving further clarification on a few concerns, the technical evaluation team found that PDL could not provide the aviation fuel part of the total requirements. Because of this, the technical evaluation team recommended that the contract award be split between ground fuel requirements and aviation fuel requirements.

- The technical evaluation team also recommended that one of the four non-technically compliant vendors', PT Pertamina, proposal be further considered and evaluated as regards the aviation fuel part of the total requirements. The technical evaluation team explained that PT Pertamina was the only reliable provider of aviation fuel in Dili. Air BP Australia had not submitted a proper proposal but had provided an "into aircraft aviation fuel supply agreement" and was considered to be technically non-compliant. Air BP had previously refused to sign the normal UN agreement for the provision of aviation fuel in Timor-Leste.

- The technical evaluation team believed that a re-bidding for the aviation fuel requirement would not yield additional proposals from other bidders and would therefore not change the results of the bidding exercise.

- The Mission heeded the advice of the technical evaluation team by proceeding with the presentation of the procurement case to the LCC and the HCC, recommending the award of the contract for the aviation fuel requirement to PT Pertamina.

- The HCC recommended, with reservations, the award of the ground fuel contract to the Mission-nominated vendor, PDL, but did not recommend the award of the aviation fuel contract to PT Pertamina. The HCC was concerned that a technical evaluation specific to the aviation fuel part of the total requirements had not been performed.

Re-bidding of the aviation fuel requirements

4. On 26 July 2007, UNMIT started a new bidding exercise by posting an EOI on the UNPD website and advertising the requirements in local Timor-Leste newspapers in August 2007. UNMIT received four proposals, all of which were found to be not qualified.

5. During the initial bid and the re-bidding periods, UNMIT sought a number of extensions to its existing arrangements with Air BP Australia, which had refused to sign any UN contract and later entered into a short term bridging

contract with PT. Pertamina under the Mission's delegated authority for "core requirements" upon a recommendation from the LCC.

6. In its 9 October 2007 telephonic meeting, the HCC recommended that the short term requirement for aviation fuel be put to a competitive solicitation exercise.

7. As at the date of the audit, the bidding for the long term aviation fuel requirements was still in process. In light of the previous response to the EOI, the Mission believes that the bidding for the long term aviation fuel requirements will yield similar results, i.e., very few responses. Due to the geographical location of Timor-Leste, its isolation, the relatively small size of the Mission's requirements, it is highly unlikely that any vendor would want to build new storage facilities in Timor-Leste without being guaranteed a long term contract.

8. While OIOS identified a number of procedural weaknesses, the HCC identified all of these. Also, the Mission is rectifying the deficiencies noted. Hence, OIOS is not making a recommendation on the weaknesses described above.

B. Additional costs to UNMIT

9. In its 28 December 2007 fax to the Controller, the UNMIT Chief of Mission Support (CMS) stated that the Mission's inability to enter into a contract with PT Pertamina, while the solicitation for the short term aviation fuel requirements continued, would result in the Mission incurring potential additional costs of around \$58,800 above the contracted prices over a four month period – the estimated period for UNMIT to complete the solicitation for short term aviation fuel requirements. The calculation was on the assumption that UNMIT would have to use the spot price method to lift aviation fuel for four helicopters while the fixed wing DHC-7 refuels in Darwin.

10. In another fax (dated 4 January 2008) to the Controller, the OIC, UNMIT Mission Support again pointed out that the Organization would incur an additional cost of about 17 percent above normal contract price, assuming that no new short term aviation fuel contract would be put in place after 5 January 2008 (the date at which the previous bridging contract with PT Pertamina based on various extensions would have ended). This did not happen since a contract was put in place.

11. Since no decision had been made on the request to further extend PT Pertamina's contract in January 2007, UNMIT held several meetings with PT Pertamina, where the latter indicated that it would only sell at the spot price in the absence of a contract. On 11 January 2008, UNMIT received the Controller's fax (dated 7 January 2008) authorizing the extension of the bridging contract for a further six weeks. The extension had to go through the normal LCC process which occurred on 16 January 2008. PT Pertamina agreed that it would bill UNMIT based on the former terms (contracted) if the Mission submits, and it did, a purchase order to cover the six-week extension period.

12. Overall, in OIOS' opinion, the Organization did not incur any additional costs relating to the procurement of aviation fuel. Any increase in expenditure for fuel cannot be attributed to the lack of fuel contract for aviation fuel but for the global increase in fuel prices. Also, there were administrative costs involved in re-bidding the requirements to ensure the transparency and integrity of the procurement process.