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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON DC 20548

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JUL 28 1972

Dear Senator Proxmire

Transmittal
This is in response to your request of October 18, 1971, that we look into fuel distribution problems in Thailand which were cited by Mr. Ray Toups, a former Navy petroleum inspector there. *PN*

On November 11, 1971, we met with Mr Toups and defined the matters of primary concern to him. These are summarized as (1) thefts of truckloads of packaged fuel products in Thailand, (2) use of Government-owned fuel by a commercial airline without paying for it, (3) loss of control over returnable empty fuel drums, (4) payments of ocean freight by the Government for commercial fuel supplies transported on vessels loaded mainly with fuel for the Government, and (5) payment of ship demurrage by the Government for delays which should be the responsibility of the shipper or the oil companies

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Information pertinent to those subjects is furnished below

THEFTS OF TRUCKLOADS OF PACKAGED
PETROLEUM PRODUCTS IN THAILAND

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AMPAC Maintenance Company, a commercial contractor, manages, operates, maintains, and repairs Government property in Thailand. During fiscal year 1971 the AMPAC station at Udorn, Thailand, received packaged products valued at about \$52,000. Internal controls over packaged products were weak at Udorn, and consequently thefts of packaged products occurred. Because inventory records were not properly maintained and because some petroleum product issue documents were not available, we were unable to determine the extent of the thefts. At the other activities we visited in Thailand, we found no evidence of fuel thefts.

AMPAC's fuel theft problems at Udorn, the central receiving and issuing point for its Government operations in northern Thailand, resulted from weak internal control over

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the receipt and issuance of packaged petroleum products. The supply official responsible for signing receipts for petroleum products delivered to the AMPAC supply dump told us that he did not witness the off-loading of the products from the trucks but that he depended on a Thai employee to perform this function. The Thai employee was also responsible for keeping stock records and for controlling issues of products to users. The users are required to sign for the products issued to them, but we found that many of the documents were unsigned.

These weak internal controls were brought to the attention of responsible AMPAC officials who took the following action:

1 AMPAC internal auditors conducted simultaneous audits of the management of packaged petroleum products in the three AMPAC areas in Thailand. Within the Udorn area, AMPAC auditors found that issues of products valued at about \$10,200 had not been signed for during the 13-month period ended January 31, 1972. However, the auditors could not determine how much of this fuel had actually been stolen. No discrepancies were noted at the other two AMPAC areas in Thailand.

2 New internal control procedures for northern Thailand were developed and implemented for the management of packaged petroleum products.

3 Six Thai employees, suspected of thefts, were discharged, but none were prosecuted because of insufficient evidence to get convictions.

We visited three other packaged fuel users--Air America, Inc., the 432d Tactical Reconnaissance Wing at Udorn Air Base, and the retail sales outlet at Sattahip, Thailand. We found no evidence of thefts at either the 432d or the retail sales outlet. At Air America we were not able to check its fuel issues because supporting documentation was not retained. We were informed that in the future Air America would retain documentation for its issued fuel.

Packaged products represent only a small portion of the volume and value of petroleum products used in Thailand. Most of the products are delivered in bulk. For example, in fiscal year 1971 the following petroleum products were delivered to locations in Thailand:

	<u>Gallons</u>	<u>Value</u>
Bulk products	691,892,112	\$76,047,195
Packaged products	<u>3,450,273</u>	<u>1,009,461</u>
Total	<u>695,342,385</u>	<u>\$77,056,656</u>

We compiled data on monthly issues at Udorn, Korat, and U-Tapao Air Bases (large users of bulk products) to determine whether there were significant usage trends, in relation to the scale of operations, which would indicate large-scale thefts. Our tests covered bulk issues of JP-4 jet fuel, aviation gasoline, diesel fuel, and motor gasoline for the period January 1970 through December 1971. The bulk petroleum products used in fiscal year 1971 by the organizations we visited amounted to about 375.5 million gallons and were valued at \$43.7 million. This represented more than half the total volume and value of petroleum products delivered in Thailand during that period.

We found no discernible trends which would indicate thefts of bulk products. Our tests covered activities which used as much as 265 million gallons in an 18-month period, therefore, our tests, while they would have disclosed large-scale thefts, were not conclusive concerning possible small losses.

GOVERNMENT-OWNED FUEL USED
BY CONTRACTOR-OPERATED AIRCRAFT IN LAOS

Continental Air Services, Inc., a subsidiary of Continental Airlines, Inc., used about \$52,500 worth of Government-owned JP-4 jet fuel, even though its contracts with the U.S. Agency for International Development Mission to Laos (USAID/Laos) and another Government agency called for

contractor-furnished fuel. The Government now is in the process of billing Continental for the fuel used.

The prepositioning of drummed JP-4 jet fuel at remote sites in Laos has been a common practice. The intended use of this fuel was for Air Force search-and-rescue helicopters and for skycrane aircraft. Continental was operating aircraft at three of the remote sites, and we were told that, to conserve time, these aircraft refueled with prepositioned JP-4 jet fuel at the sites. This practice continued for some time before it was realized that Continental was in violation of its contract provisions.

Continental was asked to review its flight logs to determine fuel used for prior periods and to keep track of current usage. On the basis of Continental's review of its flight logs and on the basis of our review, we concluded that Continental used at least 179,600 gallons of Government-owned fuel between October 1968 and September 1971. Based on Government contract prices, the value of this quantity was about \$52,500.

At the time of our review, the Air Force was in the process of billing Continental for the first increment of 100,660 gallons used between October 1968 and June 1970. Usage figures for more recent periods still are under review by personnel of Continental and the other Government agency. We have been told that, when the usage is determined, Continental will be billed.

LOSS OF CONTROL OVER FUEL DRUMS IN LAOS

USAID/Laos is responsible for administering Department of Defense petroleum contracts in Laos. Petroleum products are delivered to users throughout Laos in drums, which, when new, cost from \$6.50 to \$7.50 each. The contracts allow the users to return empty drums to the petroleum contractor, who then credits the Government for each serviceable drum returned for reuse. Credits range from \$1.50 to \$2.77 for each serviceable drum returned.

AID requires that users make a maximum effort to return empty drums because they represent a large dollar cost to the Government. Large numbers of drums are not being returned for credit, because USAID/Laos does not have complete control over them and because problems of operating in Laos make the return of many drums to the contractor impractical.

During calendar years 1969 through 1971, about 159,000 drums were used to deliver petroleum products to Laos. Of these drums, only about 39,000, or about 25 percent of the total, were returned to the contractor for a \$93,000 credit to the Government. The remaining 120,000 drums not returned would have an optimum redeemable value of about \$308,000, provided that the drums were in serviceable condition and were in locations from which the drums could be reasonably transported back to the contractor.

Inventory and disposal records for empty drums are not maintained. Because of inadequate records, we were unable to determine or evaluate the extent to which drums could be returned. Also we were unable to determine the extent to which the drums which could have been returned were not returned because they were directed to other users or were considered unserviceable. Many drums are inspected at the field activities, and those drums considered obviously unserviceable are not returned to avoid unnecessary transportation charges. Other unserviceable drums are given to the Laotian Army or are sold. Because records for these transactions were not maintained, we were unable to determine whether the drums seen in use in the local economy were obtained through these channels.

There are extenuating circumstances in Laos for the non-return of many drums to the contractors for credit. For example

- A large number of drums are delivered by airdrops or are landed at numerous isolated locations that are not accessible by road.
- Removal of empty drums is hampered by the presence of hostile forces at some locations.

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- Aircraft pilots refuse to load empty drums aboard their aircraft unless the drums are vapor tested Fumes in the drums are highly explosive, these drums could be a dangerous cargo in flight
- Aircraft are loaded with cargo having a higher priority than empty drums
- The road and river conditions during the rainy season make drum recovery difficult

Thus drum returns are encouraged, but under some circumstances this is impossible or uneconomical

OCEAN FREIGHT TRANSPORTATION PAYMENTS
FOR CONTRACTOR-OWNED FUEL

We found that the Government had not paid transportation costs for commercial products carried in tankers bringing Government fuel into Thailand

From January 1969 to July 1971, there were about 325 tanker loads of fuel delivered into Thailand under four contracts with each of three oil companies (Esso, Caltex, and Shell) We reviewed most of the transportation billings submitted by each company for this period

Under all Esso contracts, freight was charged on the basis of the number of gallons of fuel discharged in Bangkok, Thailand For these contracts, involving about 114 tanker loads, we compared the number of gallons of fuel delivered with the number of gallons billed by the contractor and found they agreed

During the same period, Caltex based ocean freight charges under its contracts, involving about 76 tanker loads of fuel, on the number of gallons of fuel loaded aboard the tankers We compared the number of gallons of fuel loaded with the number of gallons billed by the contractor and found they also agreed

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Under two of Shell's contracts, covering the period January 1969 to December 1969 and involving about 63 tanker loads of fuel, the vessels were chartered for each voyage and payment was based on a daily rate agreed to in the petroleum contracts. If commercial products were also carried on the same tanker, the contract required that the ocean freight be prorated on the basis of the ratio of the Government fuel to the commercial fuel being transported.

For these contracts, we selected 15 tanker loads and reviewed in detail the transportation charges made by the contractor. We found in each case that ocean freight charges had been correctly prorated between the Government and the contractor on the basis of the number of gallons each had on the vessel.

Under the other two Shell contracts, covering the period from January 1970 to August 1971, ocean freight was charged on the basis of the number of gallons loaded on the vessel. We compared the quantity of fuel loaded with the quantity billed and found it agreed.

Thus we found in each case that the charges for ocean transportation paid by the Government were based, as appropriate, on the amount of Government-owned fuel that was either loaded on the vessel or unloaded at the receiving terminal. In no case did we find that the Government was charged for transporting contractor-owned fuel.

TANKERS INCURRING DEMURRAGE CHARGES
AWAITING BERTHS IN THAILAND

In an interview Mr. Toups stated that the Government had been paying demurrage charges for the time spent by tankers' waiting at the sandbar in the Gulf of Siam when the tankers missed a high tide and for the time spent delivering commercial fuel products after the Government fuel supplies had been off-loaded.

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Only when the Government chartered a ship at daily rates would it be affected financially by the time spent waiting for the high tide. Chartered vessels were used by Shell between January and December 1969. The other oil companies did not use chartered vessels.

We reviewed about 23 percent of the Shell invoices and observed only one instance of a significant delay for the over-all voyage--which indicated that it was not a practice to intentionally delay at the sandbar.

Any excess time spent delivering fuel to terminals of other oil companies would be costly to the Government if it had to pay demurrage charges or if the turnaround time for chartered vessels were lengthened beyond the normal 2-day standard unloading time. For chartered vessels, the cost of delays to the Government would not be billed separately because the Government would pay a fixed-time charge for the vessel, irrespective of whether or not it was delayed in port.

We reviewed about 30 percent of the time and demurrage statements submitted by Shell and found no instances in which the Government was being charged after Government-owned fuel had been discharged.

Starting in January 1970, ship charters were not used and subsequent delays were billed separately as demurrage charges. Under Shell contracts from January 1970 to June 1971, "demurrage" was defined as the time spent in the discharge port in excess of the first 2 days. Cargo statements, which showed excess hours spent in port and the demurrage chargeable to the Government, were prepared by Shell, Singapore.

The demurrage charges between January 1970 and June 1971 amounted to only about \$14,000. A Government official who was in Thailand at the time the demurrage charges were incurred told us that thorough reviews are made of demurrage charges. We reviewed the procedures for validating demurrage charges and concluded that they were thorough.

From January 1, 1969, to August 1971, demurrage incurred under the four Esso contracts was handled differently. Demurrage in these contracts was included as an element of the ocean transportation rates which were billed on a per-gallon basis.

One Esso contract stipulated that, within 60 days after its expiration, the transportation rates which had been charged to the Government would be recomputed and adjusted to the average world freight rates in effect during the contract period. This recomputation was made by the company and resulted in a substantial refund to the Government. The demurrage element in this contract was not specified in the ocean transportation rates.

The other three Esso contracts contained a stipulation that, within 60 days of expiration, demurrage charges (billed on a per-gallon basis) would be revised to reflect the actual demurrage incurred. This revision was accomplished on the basis of audits performed by Price Waterhouse, which resulted in substantial credits to the Government.

In summary, the demurrage charges incurred in delivering fuel to Thailand appear to be nominal, and, in our opinion, the Government's interests were adequately protected.

Written comments on the contents of this report have not been obtained from the Department of Defense or from the Department of State. We will not distribute this report further unless copies are requested and we obtain your agreement or unless you publicly announce its contents.

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We trust that the furnished information will serve the purpose of your request. The correspondence from Mr. Toups is returned as requested.

Sincerely yours,



Comptroller General
of the United States

Enclosure

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The Honorable William Proxmire
United States Senate