Fuel Accountability

The Scenario

An auditor was reviewing Department of Defense fuel receipt records at an oversees location. During audit planning, the auditor conducted several interviews with military operating personnel and documented the following background information in the project file:

- Fuel accountability and oversight are virtually nonexistent until the truck convoys cross Country X's border.
- Personnel at the upload point seal the fuel tankers after fuel handlers load the tankers.
- The seals have unique numbers that personnel annotate on the customs material release form.
- Country X's customs agents break the seals at the border to inspect the contents and often do not verify that the seal number matches the number on the release form.
- Drivers could cut the seal before arriving at the border and replace it with a generic seal. As a result, there is an increased risk of fuel pilferage before fuel arrives at the border.
- After crossing Country X's border, the trucks are staged at Location A to await military escorts to their destination.

Because of information obtained during audit planning, the auditor concluded that the Department of Defense is limited in its ability to monitor in transit fuel deliveries. Therefore, the audit scope was limited to internal controls over fuel maintained at the military installation.

During the review, the auditor completed the following steps:

- Reviewed the organization's reporting of fuel discrepancies to the Defense Energy Support Center (DESC). DESC guidance requires that: "…receiving activities shall immediately conduct an investigation when the variance between quantity off loaded and quantity shipped exceeds 0.5%. In order for DESC to contest the quantity of fuel received, activities are required to submit Standard Form 361, "Discrepancy Report."
- Analyzed daily fuel inventory reports for accuracy and completeness.

- Reviewed three fuel meter records to determine compliance with the manufacturer's recommended volume of 2.5 million gallons or 1 year of service for required maintenance and servicing.

The auditor found the following:

- Personnel at Location A had three Standard Forms 361 showing they reported receipt discrepancies.[1] However, unreported and undocumented discrepancies totaled approximately 1.6 million gallons of fuel costing over $3 million. Personnel stated that they did not report the receipt discrepancies because most of the individual loses did not exceed the 0.5% reporting threshold. During the review, the auditor identified ten instances where receipt discrepancies exceeded the reporting threshold. The shortages were not detected because there were no controls in place to ensure that they were reported and no consequences for not reporting them.

  Interviews with service members and contracting personnel disclosed that eight of the ten unreported losses occurred when a suspect foreign national was working in the fuel delivery area. The auditor concluded that the foreign national was most likely responsible for the missing fuel, which was a highly sought after commodity on the local black market.

- Contractor prepared daily inventory fuel reports reflected book inventory amounts instead of the required physical inventory totals. This occurred because the quality assurance representative did not receive sufficient training to perform their duties. For example, they received a week and a half of training when they reported to their new assignment. In the past, the quality assurance representative's area of expertise was chemical engineering. Further, the contracting officer and quality assurance representative never coordinated or discussed the results of their evaluations.

- Meter records at all three locations showed that all meters exceeded the manufacturer's recommended servicing requirements. One of the meters was one year over due for required servicing and the other two were six months late. Because the fuel meters were not properly calibrated, the auditor could not determine whether fuel receipt shortages were reported or whether fuel usage records were correct at any of the three locations.

General Comments / Lessons Learned. Some of the most significant fuel losses in Southwest Asia were caused by theft before the tankers reach United States military bases; however, poor internal controls and an absence of controls, have also contributed to problems with fuel accountability. In some cases, contractors and Department of Defense personnel have not followed required reporting requirements because of inadequate training or lack of management oversight. Department of Defense auditors

[1] The Department of Defense pays for fuel actually downloaded, not the amount recorded on the receipt document at the fueling upload point.

have also reported problems with billing and collecting fuel payments from coalition partners. In addition to fuel thefts, the smuggling of equipment and sensitive material from United States military bases continues.

FRAUD INDICATORS

- **Absence of Government oversight and control of in transit supplies or equipment.**
- **Standard Form 361, "Discrepancy Reports," are not consistently submitted to the Defense Energy Support Center.**
- **Pattern of fuel receipt shortages that fall at or slightly below the .05% reporting threshold.**
- **Lack of internal controls to ensure that fuel receipt discrepancies are reported.**
- **Daily inventory fuel reports show book inventory levels instead of physical inventory amounts.**
- **Quality Assurance representatives do not have sufficient training or technical expertise to perform their duties.**
- **Lack of coordination, communication, and monitoring of contractor activities by the quality assurance representative and the contracting officer.**
- **Fuel meter records exceed the manufacturer's recommended servicing requirements.**
- **Pattern of pilferage of highly desired items including fuel, computer equipment, and military supplies.**