

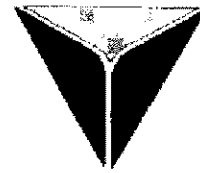
Subcommittee on National Security, Emerging Threats,
and International Relations,
Committee on Government Reform

Tuesday, October 5, 2004, 11:00 a.m.

Saybolt B.V. Documents



FAX



SAYBOLT

TO: UNITED NATIONS, NEW YORK
FAO: THE OVERSEERS

UNITED NATIONS, NEW YORK
FAO: MR BENON SEVAN

FROM: Graham Brett
Direct Line (31)-10-4609236
Direct Fax (31)-10-4609238

DATE: 29th May 1998

COPIES: MR P BOKS

REFERENCE: RESOLUTION 986 - "OIL FOR FOOD"
SUMMARY REPORTS:-

tv "Eco Africa" at Ceyhan
tv "Kraka" at Mina al-Bakr

TOTAL PAGES: 4 (three)

Please find attached our Summary Report covering the following loading:-

- 1) tv "Eco Africa" which completed loading at Ceyhan at 07:48 hrs 29/05/98 for the account of API Oil.
- 2) tv "Kraka" which completed loading at Mina al-Bakr at 08:55 hrs 29/05/98 for the account of Trafigura and Tameft. The overall quantity loaded was paper-split by SOMO into two Bills of lading as follows:-

	<u>Trafigura</u>	<u>Tatneft</u>	<u>Total</u>
Gross barrels	1,894,942	285,143	2,180,085
Nett barrels	1,893,995	285,000	2,178,995

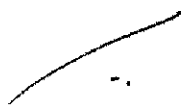
Please note the loading of the vessel was stopped by shore requirement/SOMO. The overall quantity loaded is outside the combined L/C approval of 2,300,000 barrels -5% = 2,185,000 barrels. This was advised to the terminal when vessel was stopped, who took no further action. The Tatneft "split" is for 300,000 nett barrels -5% exactly, and the Trafigura "split" of 1,893,995 nett barrels is 6,005 nett barrels short of 2,000,000 nett barrels -5% = 1,900,000.

Full details of the above loadings are now entered on to the UN Database.

Kindest regards,

Graham Brett

Graham Brett

A handwritten flourish consisting of a single, sweeping diagonal line that starts from the right side of the signature and extends upwards and to the right.



Saybolt International B.V
Independent Inspectors
Chemical Laboratories.

P.O.Box 151,
3000 AD Rotterdam
The Netherlands
Tel: (31) 10 4609911
Fax: (31) 10 4353600
Tlx: 21642 SVD NL

Date : March 31, 1998
Vessel : JAHRE VENTURE
Location : Mina al Bakr Terminal, Iraq
Cargo : Basra Light Crude Oil

STATEMENT OF FACTS

To : The Master, ss. " JAHRE VENTURE "
To : S.O.M.O. Mina al Bakr.

Dear Sirs,

This is to advise you that we, acting on behalf of the United Nations as their Inspectors and Monitors, wish to draw the attention to all parties to the following:

That there is insufficient information on board of the ship to calculate and determine an accurate Vessel Experience Factor (VEF) as per the "API Manual of Petroleum Measurement Standards, Chapter 17-Marine Measurement, Appendix C-Procedure for calculating vessel experience factors (VEF)"

Due to this fact an experience factor will not be applied to the ships measurements when determining the Bill Of Lading Quantity for the amount of Basra Light Crude Oil loaded.

Furthermore, on behalf of our client, the United Nations, we reserve the right to refer to this matter at a latter date.

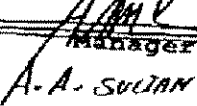
Signed on behalf of Saybolt UN Team


Lars Rasmussen, Team Leader

Accepted on behalf of ss "JAHRE VENTURE"


Master

Accepted on behalf of S.O.M.O Iraq


A.A. SULTAN
Manager

T. G. Brett



TO: SOMO BAGHDAD
TO: SOMO CEYHAN

CC: BOTAS

Timed : 27-08-98 at 15:00

LETTER OF PROTEST
=====

Dear Sirs,

The vessel "Mesta" which has loaded for the account of Rosneft has a UN approval to load 500,000 barrels +/- 5%. On completion of loading the ships figures gave a loaded quantity of 511,911 barrels which falls within the UN stipulated amount. We see no reason to require discharge to shore of 11,000 barrels.

If this transfer to shore is a requirement enforced by you, we, as monitors on behalf of the United Nations:-

- 1) Reserve the right of our principal to refer to this matter at a later date, particularly in respect of any delays incurred.
- 2) Insist that any such transfer to shore is effected in such a way that the transferred cargo can be measured accurately, and will not be degraded in quality in any way, to the satisfaction of the Saybolt/UN monitors on site. Transfer of cargo to the Kirrikale pipeline, or another vessel, will not be acceptable.
- 3) We can accepted the decision to discharge back into T 4

Yours faithfully,

Saybolt Int. - UN Team Ceyhan, Turkey.

For: SOMO

Huib de Bruijn
Team - Leader

Mr. H.S.A. Razzaq

Huib
NOTE: THE QUANTITY CONFIRMED BY SOMO IS IN ACCORDANCE TO THE REQUIRMENTS OF THE L/C OPENED BY BUYER TO COVER THE VALUE OF THE SAID CARGO .

Overseers. The
UN Resolut. 986 - Oil For Food
United Nations
New York

SAYBOLT NEDERLAND BV

Independent Inspectors
Quality Assurance Services
Chemical Laboratories

Members ASTM/IP
Management Ir. F. Plumiers



SAYBOLT

SUMMARY REPORT

Report No.: 29152/97
Date: 27-08-97
Vessel: MESTA
Location: Ceyhan (Turkey)
Grade: Kirkuk crude Oil

Final after partly
discharging

	Vessel loaded Excl. OBQ	Bill of Lading	Difference Quantity	o/o
T.C.V. Barrels	502,528			
G.S.V. Barrels	501,876	499,230	2,646	.53
Gross M.Tons Air	67,254.819	66,900.227	354.592	.53
Gross Longtons	66,192.43	65,843.44	348.99	.53
N.S.V. Barrels	501,751	499,105	2,646	.53

	Vessel less OBQ Adjusted by VEF	Bill of Lading	Difference Quantity	o/o
T.C.V. Barrels	499,879			
G.S.V. Barrels	499,230	499,230	0	0.00

	Non Liquid Oil	Liquid Oil	Free Water	Total Volume
O.B.Q. Barrels	2,400	111	0	2,511

Vessel Experience Factor Based on 2nd Average : 1.0053
S & W Volume o/o : .025

	Vessel Total	OBQ	Vsl Loaded	Bill Of Lading
Free Water BBls	652		652	
S & W Volume BBls	125		125	125
Total Volume BBls	777		777	125

N.O.R. Tendered 26-08-97 10:00 Commenced Loading 26-08-97 14:30
Bill of Lading Dated 27-08-97 Completed Loading 27-08-97 16:50

SAMPLING	Samples taken : yes	Number of samples taken
Description of the sample	inline sampler	1 x 5 LTRS

ANALYSIS			
A.P.I.		ASTM D 1298	36.00
Water Content	Vcl o/o	ASTM D 4006	.025
Sediments by extraction	Mass o/o	ASTM D 473	
Pour Point	oC	ASTM D 97	Less -21
Viscosity at 20 oC	mm2/s	ASTM D 445	4.83
Salt in Crude	lb/1000 bbbs	ASTM D 3230	7

Remarks:
Cu Metres at 60 of Bill Of Lading : 79,371.080
Cu Metres at 60 of Vessel : 79,791.760



Post address
P.O. Box 151
3000 AD Rotterdam
The Netherlands

Tel. (010) 460 99 11
Telex 216 42
Fax (010) 435 36 00

All our activities are carried out under the terms lodged
at the Arrondissementsrechtbank (County Court) in Rotterdam.
Trade Register Rotterdam No 228.922



Saybolt International B.V.

**Independent inspectors.
Chemical laboratories.**

**P.O. Box 151,
3000 AD Rotterdam
The Netherlands
Tel: (31) 10 4609911
Fax: (31) 10 4353600
Tlx: 21642 SVD NL**

**Date : June 14, 1998
Vessel : HELLESPONT ORPHEUM
Location : Mina al Bakr Terminal, Iraq
Cargo : Basrah Light Crude Oil**

STATEMENTS OF FACTS

To : The master . "Hellespont Orpheum"

Dear Sir,

In accordance with the letter of Credit issued by the United Nations on behalf of Receiver "Zarubezhneft", the maximum quantity for the ship to load was 2,000,000 barrels plus 5 %. This equals 2,100,000 barrels.

This quantity was agreed with terminal personnel, UN monitors and ship personnel. The latter requested that loading would be terminated by means of ship stop.

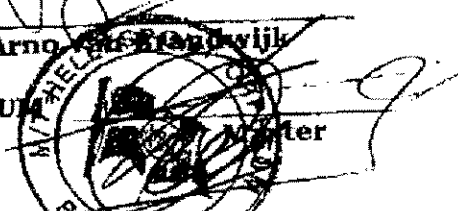
However, after calculations were completed at end of loading of mentioned cargo there was found to have been a total of 2,116,648 barrels received on board.

This indicates that a quantity of 16,648 Net U.S. bbls have been overloaded at this time for which it will be necessary to obtain an ammendment to the issued Letter of Credit. This matter may be considered in hand.

Signed on behalf of Saybolt UN team

Arno van den Broek

Accepted on behalf of "HELLESPONT ORPHEUM"



FOR RECEIPT ONLY

AS C/P MINIMUM 2.138.000 BBLs



SAYBOLT

Saybolt International B.V.

Independent Inspectors
Chemical Laboratories.

P.O. Box 151,
3000 AD Rotterdam
The Netherlands
Tel : (31) 10 4609911
Fax : (31) 10 4353600
Tlx : 21642 SVD NL

Date : August 22, 1997
Vessel : JAHRE VENTURE
Location : Mina al Bakr Terminal, Iraq
Cargo : Basra Light Crude Oil

STATEMENT OF FACTS

To : The Master, ss. "JAHRE VENTURE"
To : S.O.M.O. Mina al Bakr.

Dear Sirs,

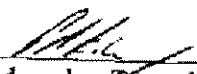
This is to advise you that we, acting on behalf of the United Nations as their Inspectors and Monitors, wish to draw the attention of all parties to the following:-

That there is insufficient information on board of the ship to calculate and determine an accurate Vessel Experience Factor (VEF) as per the "API Manual of Petroleum Measurement Standards, Chapter 17 - Marine Measurement, Appendix C - Procedure for calculating vessel experience factors (VEF)."

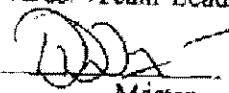
Due to this fact an experience factor will not be applied to ships measurements when determining the Bill of Lading Quantity for the amount of Basra Light Crude Oil loaded.

Furthermore, on behalf of our client, the United Nations, we reserve the right to refer to this matter at a later date.

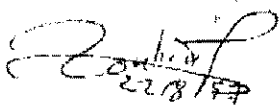
Signed on behalf of Saybolt UN. Team.


Cpt. Paul Edwards, Team Leader

Accepted on behalf of ss "JAHRE VENTURE"


Master

Accepted on behalf of S.O.M.O. Iraq *just for receive of Receipt for SOM*
Manager


ZUHAIK NAJJI
S.O.M.O. REPRESENTATIVE

OIOS AUDITS
2
REPLIES



Peter Boks/Saybolt/NL
10/22/2002 08:05 PM

To sevan@un.org
cc
bcc
Subject Audit recommendations

Dear Benon,

How can I cope with people that do not understand what they are looking at and continuously mix up proposals and contracts.

The auditors refer to the equipment costs of USD 230,000 mentioned in one of the early proposals versus a total contract value of USD 2,940,100.-.

It should be taken into consideration that after obtaining more knowledge over time, we revised our budget and concluded a contract with the UN on 16 August 1996 with a contract value of USD 1,869,000.- per period of 180 day's.

I will obviously provide you with a more detailed overview but needed to let off steam after observing so much ignorance.

Please note that the final contract nor the present contract specify any of the costs, so I can not understand the point the auditors make to stop paying for equipment.

Apologies for being disagreeable.

Kindest regards,

Peter Boks

If you are satisfied with our services do tell others. If you are NOT satisfied, please do tell us:
<http://www.saybolt.com/complaint.nsf/>

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Dear Mr. Sevan,

AUDIT RECOMMENDATIONS

Your letter of October 21st, 2002, on the above matter is to hand and I would like to comment as below.

It now becomes obvious that the authors statements based on their misunderstanding of the documents that they seem to have at their disposal.

Firstly, the "Request For Bid" calls for an all-inclusive price on a per/man per/day basis. There is no requirement to quote a cost for equipment; indeed the RFP does not require any costs to be itemized.

Initially, we were asked to submit a per/man/day for 12 men over a 240-day contract period. This submission was supported by documentation labeled "Tariff Structure" (more as an "aide memoire" to assist in understanding how the) per/man/day price was calculated) which makes a reference to equipment costs of US\$ 230,000 against a man/day rate of US\$ 1,020 per day.

Subsequently the RFP requirements were discussed and updated, resulting in man/day rates of US\$ 820, eventuating in a final agreed rate of US\$ 675 per man day resulting from a long, and evolutionary, negotiating process, with an additional amount for testing the quality of the crude oil exported.

The OIOS report, under Section D. Contract Issues, Para's 49 and 50, quite openly quotes from the "Tariff Structure" document (the provenance of which is noted above) even though this particular document refers to a man/day rate of US\$ 1,020 per day (which was never accepted) and the RFP requirements for Saybolt to quote ONLY a single per/man/per/day rate. Para 49 then proceeds to extract a figure of US\$ 230,000 for equipment (from a bid submission that was not accepted) and simply applies this to the total contract cost to produce a percentage of 7.82%.

In Para. 50 of the OIOS report this erroneous percentage has then been applied to the man/day rate (that was accepted at a later date) to give a figure of circa US\$ 55 per day and merely multiplied up to a cost over 9 phases. Hardly convincing mathematics!

As we have iterated a number of times before, there was no equipment cost quoted to the United Nations. We ONLY reacted to the RFP and provided EXACTLY what was requested - nothing more and nothing less - namely a fully inclusive per man per day cost for 14 men for a period of 6 months.

Then the OIOS report, in Para 51, states that IN OUR OPINION equipment should have been charged to the OIP as a one-time expenditure with an additional provision for maintenance of the equipment. The OIOS is entitled to an opinion but any such opinion should be limited to the remit of the audit in hand, and obviously cannot be retro-actively applied to an existing legally constituted open tender contract.

The OIOS opinion also fails to embrace the fact that without a price increase (indeed a price reduction in later phases) Saybolt has continually replaced and updated equipment situated in Iraq and Turkey, notwithstanding the

considerable increased capital costs encountered since the contract inception, and the maintenance and transportation costs.

I trust that the ^{above} clarifies the misunderstandings. Please do not hesitate to contact me if further explanation is required.

Yours sincerely,

Peter Boks.

UNITED NATIONS



NATIONS UNIES

POSTAL ADDRESS—ADRESSE POSTALE: UNITED NATIONS, N.Y., 10017
 CABLE ADDRESS—ADRESSE TELEGRAPHIQUE: UNATIONS NEWYORK

OFFICE OF THE IRAQ PROGRAMME – BUREAU CHARGE DU PROGRAMME IRAQ

NOTE BY THE OFFICE OF THE IRAQ PROGRAMME

Comments by the Office of the Iraq Programme
 on the final report submitted by OIOS on 15 April 2002

OIOS Audit No. AF2001/30/6: Audit of the management of the oil inspection services contract

1. Following the adoption of Security Council resolution 986 (1995) on 14 April 1995 and the conclusion of a Memorandum of Understanding (MOU), on 20 May 1996, between the Secretariat of the United Nations and the Government of Iraq (S/1996/356), Saybolt Eastern Hemisphere BV (hereafter referred to as Saybolt) was awarded Contract PTD/127/0065-96, in August 1996, to provide the services of 14 individuals with “particular experience and qualifications to assist in monitoring the export of petroleum and petroleum products from Iraq”. The contract was for an initial term of six (6) months, with an option of renewal for up to three (3) successive periods of six (6) months, on the same terms and conditions. Contract PTD/127/0065-96 was subsequently amended several times to provide for additional inspectors for oil spare parts, and groups of oil experts that undertook special assignment at the behest of the Security Council. Contract number PD/CO114/00 executed in June 2000 succeeded contract PTD/127/0065-96. Under the new contract, which is for one year, with an option of renewal for three (3) successive terms on the same terms and conditions, Saybolt would provide 20 inspection agents; 14 to monitor the oil exports and six (6) for spare parts and equipment. The contract has been amended to provide for an increase in the number of oil spare parts inspectors from six (6) to eight (8), bringing the total number of agents to 22.

I. Introduction

2. In paragraph 5 of the audit report (hereafter referred to as the Report), it is stated that the Office of the Iraq Programme (OIP) did not arrange for an exit conference requested by OIOS or respond to audit recommendations forwarded in a draft report, on 7 December 2001, with a deadline of 15 January 2002. It is also stated that “despite the granting of two time extensions, no response to the draft audit report recommendations has been received up until now.”

3. As stated in paragraph 1 of the Report, it took from March through August 2001 to conduct the audit, and then it took over three months, until 7 December 2001, to submit the draft report to OIP for comments thereon by 15 January 2002, during a period when OIP was totally involved with the start of the implementation of a new phase (phase XI) of the humanitarian programme and consideration of the new distribution plan being submitted by the Government of Iraq.

-2-

4. A quick review of the draft report indicated immediately the necessity for a thorough review because OIP could not agree either with the findings or the assumptions made by the auditors. There were also many errors in the calculations made by the auditors, which required us to check invoices, among others. Furthermore, the OIP staff member who had been responsible with the management of the contract was no longer with OIP. It was also necessary to seek detailed information from Saybolt's headquarters regarding some of the claims made in the draft report, because the auditors, who although had held meetings with the contractor's team leader in the field, had not been in touch with Saybolt's headquarters, or at the least through OIP, to receive authoritative responses to their queries.

5. The above explanations were provided to the Director of the Internal Audit Division and the Chief of the Iraq Programme Unit of OIOS, with a request for extension of the deadline, which was granted. Furthermore, the Director of the Internal Audit Division and the Chief of the Iraq Programme Unit were fully informed of the extreme difficulties being encountered in implementing the programme, which obliged the Executive Director of the Iraq Programme to travel to Iraq on 10 January 2002 with a view to resolving the difficulties with the Government of Iraq, including the refusal to grant over 200 visas requested for UN personnel involved in the implementation of the programme. The Executive Director had to stay longer in Iraq than originally planned, for almost a month. It was taken for granted that OIOS, in addition to being informed by OIP and having two resident auditors in Iraq, was fully aware of the continuing difficulties encountered in programme implementation as the programme has become more politicized than ever. Consequently, the focus of OIP's attention at the time of the submission of the draft report to OIP had been on matters that affected the day-to-day implementation of the programme as well as assisting the Security Council Committee established by resolution 661 (1990) (hereafter referred to as the Committee) in resolving the difficulties encountered within the Committee itself.

6. The Director of the Internal Audit Division and the Chief of the Iraq Unit will recall that it was through the personal intervention of the Executive Director that they were granted Iraqi visas that enabled them undertake their recent visit to Iraq. On the return of the Executive Director to Headquarters, it was agreed with OIOS that OIP would prepare its comments on the draft audit report, first as "a non-paper", for discussions with the Internal Audit Division, on an informal basis. It was agreed that such discussions would take place on the return of the Director and the Chief of the Iraq Unit from their visit to Iraq. OIP waited for their return in order to submit its "non-paper" for discussions. Instead, however, and contrary to the arrangements agreed upon earlier, the Executive Director received an e-mail message, on 5 April 2002, from the Chief of the Iraq Programme Unit, which read as follows: "As previously agreed a response to the above draft report was to be provided by 31 March 2002. This was the second extension given. Since a response has not been received we will be issuing the final report shortly." OIP was not even aware that the Director and the Chief of the Iraq Unit had already returned to Headquarters. At the time when the arrangements were agreed upon, the Director and the Chief of the Iraq Unit were informed of the intention of the Executive Director to invite a representative of Saybolt to be present at the discussions on the "non-paper". Disappointed with the attitude of the Chief of the Iraq Unit and even though the OIP "non-paper" was ready, the Executive Director responded that the Chief of the Iraq Unit could go ahead and publish the report as long as "you are prepared to be fully accountable for your report. If you go ahead and

-3-

publish it, however, you must also undertake to publish our comments thereon, in toto, either as a separate report or an addendum thereto." Copy of the e-mail exchange of correspondence is attached as an annex to the present Note.

x x x

7. The audit objectives as stated in the Report are, *inter alia*, to assess OIP's management of the contract, determine if the contractor provides the required services in an economical, efficient and effective manner, and review the management of other services being provided by the contractor.

8. A review of the Report, against the stated objectives of the audit, would have to take into full consideration the context in which the contracts were executed and administered. Contracts are not executed in a vacuum. This particular contract is being carried out within a very rigorous sanctions regime and managed in a highly sensitive political environment. Any realistic assessment of the management of the contract would have to factor in these considerations. Yet, it would appear from the Report that the audit was conducted without taking full cognizance, either of the legal or political context of the contract which in turn influence its management. There are many aspects of the programme as well as its implementation governed by the relevant resolutions and decisions of the Security Council and its Committee, which outside the political context may defy logic; however, as the Secretary-General has stated repeatedly regarding this programme, "we take our marching orders from the Security Council".

9. For example, in the introductory paragraph of the Executive Summary, it is stated that "OIP should have considered utilizing UN staff to perform the oil inspection service as an alternative to hiring a contractor, which would have resulted in substantial savings." Utilizing UN staff to perform the oil inspection services, as recommended by the auditors, would have been inconsistent with the Security Council resolution 986(1995) and the Memorandum of Understanding between the Secretariat of the United Nations and the Government of Iraq (MOU), on the implementation of the Security Council resolution 986(1995) (S/1996/356). Annex II, paragraph 4, of the MOU expressly provides for independent inspection agents to monitor Iraqi oil exports. Consideration of savings was never the ultimate goal of the decision taken by the Security Council; rather, the goal was to ensure full and thorough inspection of oil exports and full compliance with the decisions taken by the Council.

10. Various amendments of the contract were undertaken in response to the requests of the Security Council and its Committee that required urgent action on the part of the Secretariat. Fortuitously, the established good working and highly professional relationship of the Government of Iraq with Saybolt presented the United Nations with a considerable advantage, one that cannot be cost evaluated, and which has enabled OIP to field the special missions most expeditiously pursuant to decisions taken by the Council or its Committee, avoiding inordinate delays in the granting of visas to the experts who had to travel to Iraq on short notice. Furthermore, it has been essential to ensure the confidence of not only of the Security Council members but also of the Government of Iraq regarding the impartiality of the work of the experts, as evidenced by the fact that we have had no difficulty in securing visas for one of the leaders from Saybolt to visit Iraq on a regular basis, despite his nationality, which is British.

11. The decision to manage the contract by OIP at Headquarters rather than by UNOHCI was in order not to unduly compromise the latter's mandate. This was a decision taken even before the establishment of OIP in October 1997. The same applies for the management of the contract with Cotecna, and previously with Lloyds. To the extent possible, efforts have been made by OIP to institute appropriate procedures that would ensure that the contractor fully discharges its contractual responsibilities. It is realistic, however, to acknowledge that political actions may affect the manner in which the contractor discharges its responsibilities. For example, it is common knowledge that oil exports are interrupted periodically, such as the present decision taken by the Government of Iraq to suspend all oil exports for 30 days. Furthermore, although the Government has refused to allow any additional contractor's staff to be stationed in Iraq on a permanent basis, Saybolt has, with OIP's consent, occasionally deployed more staff on a short-term basis to cope with peak periods of work. It should be noted, however, that irrespective of the number of staff deployed by the contractor, payment is effected only for the number provided for in the contract.

12. The contractor also provides expert advice to OIP in its day-to-day-operations as well as to the Committee, including regular briefings on the oil industry of Iraq as well as on oil spare parts and equipment provided under the programme. With regard to the status of the contractor's staff posted in Iraq, it is recommended to the auditors that they review the relevant provisions of the MOU, in particular Section VIII, concerning Privileges and Immunities. A fuller understanding of the range of services provided by the contractor would have enabled an appreciation of the background to the contract, the contract itself, and its management.

13. Although the auditors undertook site visits to some of the locations where the independent inspection agents are located, they did not, most unfortunately, visit Mina al-Bakr to witness first hand the very difficult and most dismal conditions under which the independent inspection agents operate, literally closeted on the oil platform which may collapse at any time. In addition, there was no consultation between the auditors and OIP officials, nor with Saybolt headquarters that would have helped clarify for the auditors some of the contentious issues. Although the auditors held discussions with the contractor's team-leader in Iraq, they should have addressed their questions to Saybolt headquarters, or at least through OIP, in order to receive a more authoritative responses.

14. Comments on specific audit findings and recommendations are proffered hereunder:

A: Monitoring of invoice payments and financial matters

Procedures have not been implemented to monitor invoice payments:

15. Paragraph 9(i) states that "a review of 19 monthly invoices and supporting documents found "deficiencies". Among the deficiencies stated is ambiguity of the attendance record which reflected "from arrival to departure Amman". In the view of the auditors, payments should only be made for manning the locations in Iraq and Turkey.

16. Contract number PTD/127/0065-96 (the initial contract) determined the number of inspectors required at particular locations in Iraq and Turkey, and Article 7.1 provides for full payment for complete and satisfactory performance by the contractor of his obligations under the contract. In that regard, it could be argued that once the requirement of satisfactory performance is met, the "deficiency" in the *attendance record* becomes a non-issue. Nonetheless, since December 2000 the *attendance record* has shown "Personnel Attendance on Location, from arrival to departure".

17. The Report also illustrates that the auditors did not have a full understanding of the contract and the method used in the preparation of invoices by Saybolt. This misunderstanding led to a significant error in 'finding' that Saybolt overcharged some \$370,000 for services provided during the period 29 May 1999 to 28 June 2001. The auditors have confused the billing mechanism, seemingly thinking that Saybolt's billing was based on contracted staff levels and not on staff on site. The auditors have also confused the contracted number of inspectors for oil spare parts and equipment. There are eight and not six inspectors, as stated in paragraph 8 of the Report.

18. There is a historical precedent in the preparation of invoices in line with the commencement date of the current contract. The invoice always covers the period between the 29th day of the previous month until the 28th day of the month the invoice is prepared. Thus, the invoice prepared at the end of June covers the last few days of May until the 28th of June inclusive. Reference is made in this regard to Amendment No. 8 to contract PTD/CON/127/0065/9, which covered the period 29 May 1999 through 28 November 1999, after which this invoicing scheme was implemented. A review of all invoices found only one incorrect invoice issued for the month of June 1999. This irregularity does not appear in any of the other invoices. No over billing occurred as a result of this split-month billing, except for the July 1999 bill that included "31 June 1999". This overcharge (17 Man days) will be deducted from a future payment. That the irregularity was not queried by OIP was because OIP understood very well the billing mechanism.

19. The lump sum payment method provided for in Contract PTD/127/0065-96 (the initial contract) was discontinued with effect from 28 May 1999 in the successor contract. The change was a consequence of Amendment 8 of the original contract.

Overpayment of monthly invoices needs to be recovered

20. Paragraph 10 states that the contractor had overcharged by approximately \$370,000, on short and excess stationing of staff. Except for the 1999 invoice where Saybolt billed for 31 June 1999, there did not appear to be any evidence of over billing. The invoices were in line with the attendance records. It would seem that the auditors have only indicated the first 28 days of the month shown on the attendance record, and ignored the 29th, 30th and 31st day of the previous month, in determining the days of attendance. The other billing errors found were for December 2001, where Saybolt billed for 421 days for Oil Inspectors against 422 shown on the attendance sheet, so undercharging by one day, and June 1999, where a wrong code was used on the attendance sheet, although this did not have a financial consequence.

21. Regarding the short stationing of staff, as the invoices (since 29 May 1999) were based on staff as per the attendance sheet, no adjustment was required to the invoice for contracted staff that were not on duty, as the invoice did not include any charge for an absent Saybolt staff member. As noted above, irrespective of the maximum number of oil spare parts inspectors allowed into Iraq, during the initial stages of that programme monitoring oil spare parts and equipment provided under the programme, the contractor only deployed number of staff sufficient to effectively carry out the requirements of the Committee, as there was, in the initial period, an obvious time delay in ordering and the actual arrival of the oil spare parts and equipment. It would, thus, appear that the auditors did not differentiate between Saybolt's responsibilities.

Communication charges by the Contractor have been excessive

22. **Paragraphs 11 and 12** state that the tariff structure of the contract include communication expenses which is about 21 per cent of the total contract amount and that the Contract did not provide for any requirement to justify the expenses incurred through the use of a satellite communication system (Satcoms). The Report also states that the "UN did not consider alternative options such as using the UN telecommunication system, which would have reduced the communication expenses significantly, apart from being transparent in terms of identification of all calls including personal ones..."

23. The auditors did not seem to take into consideration the geography of Iraq, the location of the sites where the independent inspection agents are stationed, the logistics and difficulties, particularly political, which would have been involved in extending the UN telecommunication system to the various locations. It should be borne in mind that the United Nations has been encountering considerable difficulties with the Government of Iraq in even importing replacement and or spare parts for existing UN communication establishment in Iraq.

24. Also, it must be borne in mind that it is essential that the independent inspection agents transmit their reports most expeditiously from the location where they are based, using communication not limited to the various Satcom units alone. Furthermore, there is daily on-line time from Saybolt's headquarters to the various locations in the field, to transmit data such as the authorization documentation for crude oil loadings, as well as, communication with UN Headquarters, as appropriate. Finally, it should be noted that "on-line" costs was renegotiated in the current contract, PD/COI 14/00, resulting in substantial savings on communication costs.

OIP needs to recover personal phone calls made by the Contractor's staff

25. **Paragraph 14** states that Saybolt's "internal policy is to allow each of its staff members free private telephone calls totaling up to 45 minutes per month. In Turkey, it was ascertained that staff members were not charged at all for personal calls, as these were not substantial in the Contractor's view. Since the total communications cost is included in the man-day cost structure, private telephone calls of the Contractor staff members are being charged to OIP."

26. The auditors seem to have confused the cost structure with the agreed billing procedure. As the contract is all-inclusive daily fee, the only mechanism for charging would be

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attendance on site of the contracted personnel and satisfactory performance of their duties.

27. The contract was awarded to Saybolt based on competitive tender and there is no evidence that alleged communication costs for private calls are charged to OIP. It must also be mentioned that the State Oil Marketing Organization (SOMO) has relied for quite some time upon Saybolt's communication systems, particularly after the military action in 1998. All costs involved amounting to USD 6,000 per month were absorbed by the contractor (Saybolt).

28. However, the points raised in the Report regarding the cost structure could be utilized in the negotiations for the next contract.

Accommodation and local transportation charges included in man-day billing rate have been excessive

29. Paragraphs 16 and 17 state, *inter alia*, that at Zakho and Mina-al-Bakr, the Government of Iraq had provided accommodation for the Contractor's staff, and at Zakho, SOMO had also provided two cars for local transportation.

30. With regard to questions related to costs for accommodation, transportation, communications, etc., in Iraq, it is a well-known fact that these types of expenses to be incurred in Iraq would have to be compensated, but under the restrictions of sanctions, no payments could be made within Iraq in any other currency but Iraqi dinars. This has led to special arrangements by the contractors, not just Saybolt, to ensure that these services, etc., are provided, as required.

Transport costs provided for in the Contract have been charged

31. Paragraph 18 states that "notwithstanding specific provisions in the Contract to the contrary, amendment number three provided for computer equipment for two spare parts inspectors at a cost of \$17,800. Furthermore, as per the proposal of the Contractor, dated 19 September 2000, the cost of vehicles for spare parts inspectors was also authorized at \$39,000. In this regard, we note that the man-day rate provides for transportation costs of 2.85 per cent. In our opinion, adequate provision was made in the Contract for transportation and no justification was given for amending the Contract to provide additional transport. This arrangement was not transparent and appeared to double charge the UN for these costs."

32. To facilitate the execution of the contract, it was decided that Saybolt could purchase three vehicles and operate them independently and the vehicles would remain the property of the United Nations. Because of the urgency of the need, it was further decided to purchase vehicles that were immediately available, that happened to have different colors and prices.

Non-expendable equipment purchased by the Contractor had not been adequately accounted for

33. Paragraph 20 states that "the UN had authorized the Contractor to purchase equipment including vehicles, and communication equipment like satcoms, computers and software. We found that the equipment paid for by the UN did not have any UN asset number affixed and had never been inspected by the UN. Furthermore, the equipment was not entered into OIP's

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inventory system, and there had been no periodic checks on these assets as required by UN financial rules."

34. The contract is all-inclusive, that is to say, inclusive of the equipment purchased by the contractor. In this regard, the communication equipment, computers and software are not UN property, and therefore there is no corresponding requirement for an inventory.

Charges for additional services provided by the Contractor have been excessive and inadequately monitored

35. Paragraphs 21 to 25 state, *inter alia*, that OIP accepted cost proposals from the contractor for additional services "without any evidence of price negotiations or tests of reasonableness. Moreover, payment for these services had been made without documentation to support the invoicing such as original bills for purchases, tickets, vouchers, etc."

36. The auditors do not seem to have understood clearly the nature of the work of OIP and the very sensitive and often most urgent requests by the Security Council and its Committee. The proposals referred to by the auditors relate to specific survey missions that were undertaken at the specific request of the Security Council within a very tight timeframe. The proposals by the contractors are "all-in", i.e., including all relevant personnel for technical activities and analysis, as well as for ancillary services, such as report writing, presentations to the Security Council Committee, etc. In addition to the demands by the Security Council, the Government of Iraq would also have had to agree to the presence of any contractor, and the Government's experience with Saybolt presented the United Nations with a considerable advantage - one that cannot be cost evaluated - and rendered the missions much more expeditious and effective.

37. It is also an erroneous assumption that OIP does not maintain comparative information to determine the "reasonableness" of proposals. OIP has always kept such information and has maintained on-going contact with professional societies and industrial organizations, and has thus been able to discuss quickly with experts whether technical and financial proposals were reasonable.

38. Regarding the comments on the round-trip from Amman-Baghdad-Amman, it is conceded that the charges were overstated. Consequently, OIP is arranging a deduction of the overcharge, as appropriate.

39. The auditors do not seem to have taken into consideration the question of the time factor established by the Council and its Committee, which had to be taken into consideration in fielding missions. Fortunately, Saybolt had and was able to provide experts immediately from their rosters who were specialized in the areas necessary to undertake such missions, as well as having great technical familiarity with both the Iraqi oil industry as well as the oil industry in general in the region. Regarding the comments specifically on paragraphs 24 and 25, on "the reasonableness" of the charges, it is essential to keep in mind that the contract was based on an "all-in" cost proposal. Furthermore, the contractor's proposals were fully considered by the Oil Overseers.

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The Contractor had not conducted "audit visits" as provided for in the Contract

40. Paragraph 26 states that although the contractor's proposal dated June 1996, provided for a coordinator from Rotterdam to "audit" their operation in Iraq every six weeks, no audit had been conducted. On the assumption that the costs of the visits would have been included in the overall price proposed by the Contractor, the auditors consequently calculated 36 such missed visits.

41. The assumption is incorrect, as the technical head of the Iraq team for Saybolt regularly undertakes missions to Iraq and the cost of these visits is included in the overall cost of the contract. In addition, regular "audit" visits are undertaken by OIP experts, particularly those involved in spare parts and equipment for the oil sector, as well customs experts and the Oil Overseers. It should also be pointed out that it is more effective and efficient to have an overall team leader positioned within Iraq that has total responsibility for "auditing" functions on an on-going basis of review and action, than only periodic "audit" visits, which are, after all, *post facto*.

Services provided by UNOHCI have not been adequately charged to the Contractor

42. Paragraphs 27 and 28 have been duly noted. As stated in paragraph 12 above, it may be useful for the auditors to review Section VIII of the MOU, concerning Privileges and Immunities.

B: Monitoring Contractor's performance

OIP officials charged with monitoring the Contract had not made inspection visits to Iraq

43. Regarding the comments on paragraphs 29 and 30, it should be noted that the contract is being executed in a highly sensitive political environment. As has been already stated, in order not to compromise UNOHCI's mandate, it was decided to administer the contract from Headquarters. OIP maintains oversight of the activities of Saybolt on a daily basis through reporting as well as daily consultations with Saybolt, the Oil Overseers, as well as the OIP group of experts on oil spare parts.

D: Contract Issues

Need to separate the cost of Contractor's equipment from the man-day fee structure

44. In paragraphs 31 to 37, and the auditors' corresponding recommendations, the Report discusses the cost of equipment purchased under the contract with Saybolt. While the comments are too vague to constitute a valid finding, it is clear that the auditors did not take into full consideration the ongoing maintenance, repair and replacement costs that are factored into the contract as well, when they speak of onetime costs for equipment and recommend reimbursement by Saybolt. Furthermore, had the auditors been in touch with Saybolt's headquarters, they could have received the information regarding the cost of "some of the equipment", as the auditors have put it.

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Scrutiny of CVs of Contract personnel have been ineffective

45. It would seem that the auditors did not fully understand the background of the issue of early pensioners. It was originally foreseen that the contractor would identify overseers. That idea was subsequently cast aside. In the selection of staff assigned to monitor the crude oil exports from Iraq, one clearly needs experienced and motivated individuals capable of working efficiently in the most arduous conditions in Iraq.

46. It is also incorrect to state that CVs of contractor's personnel are not reviewed. Whenever Saybolt sent a recommendation, it was reviewed by the appropriate staff at OIP and then forwarded to the Oil Overseers in OIP, for their comments. OIP has at times raised a number of questions with regard to candidates proposed by Saybolt, for various reasons, including experience, language skills, and geographical distribution. This was all discussed during the daily contacts between Saybolt and OIP. Candidates were withdrawn by Saybolt following these discussions, and therefore there was no need for "rejection" by OIP.

47. In the memorandum, dated 15 April 2002, addressed to the Executive Director of the Iraq Programme, transmitting the Report, the Director of the Internal Audit Division, OIOS, has stated, *inter alia*, that OIOS considered recommendations 3, 4, 6, 8, 9, 16, 17 and 21, contained in the report "as being of critical importance". In light of the introductory remarks above, as well as the comments on specific paragraphs, it will be necessary to review each of the recommendations as stated hereunder:

Recommendation 3: Establish a contract management unit in Iraq whose functions should include reviewing invoices' supporting documentation, verifying Contractor's attendance records, monitoring additional requests for equipment and services by the Contractor and providing input for evaluation of the services provided (AF01/30/6/003).

48. This recommendation fails to take into consideration the fact that this would require additional resources and staffing, which are extraneous to UNOHCI's mandate and would not necessarily be agreed to by the Government of Iraq. Furthermore, it should be borne in mind that UNOHCI is an integral part of OIP. We believe that the decision to manage the contract from Headquarters level was the right decision taken. We have the expertise within OIP at the Headquarters, including the Oil Overseers and the group of oil spare parts experts with whom Saybolt has to work very closely, almost on a day-to-day basis.

Recommendation 4: OIP management should recover the overpayment of \$370,000 as indicated in Annex I, from the Contractor in subsequent billings (AF01/30/6/004)

49. This recommendation should be further reviewed by OIOS. The \$370,000 seems to be significantly overstated. Ironically, Saybolt's review of its invoices revealed undercharging of approximately \$19,000 that might cancel any overcharging.

Recommendation 6: OIP management should in future contracts with the Contractor (or any other contractor) separate the communication expenses from the man-day tariff structure and reimburse these on presentation of detailed documentation (e.g. invoices from service providers) (AF01/30/6/006)

50. The recommendation is noted and will be taken into account for the negotiation of future contract proposals.

Recommendation 8: OIP management should take steps to stop payment of personal telephone calls of the Contractor staff and recover the amounts overpaid which is estimated at \$109,000 for the first nine phases of the programme (AF01/30/6/008).

51. The contract is an all-inclusive, and there is no evidence that the contractor has separately charged OIP for private calls. Further, it would be contrary to the terms of the contract to demand such reimbursement.

Recommendation 9: OIP management should recover overpayments for accommodation and transportation of approximately \$471,000 from the Contractor (AF01/30/6/009)

52. The contract is all-inclusive, therefore under the terms of the contract there is no reimbursement due.

Recommendation 16: Implement procedures for procuring urgently required services, which should include: obtaining quotations from other suppliers; checking the reasonableness of quotations based on actual costs; and negotiating costs with the selected supplier (AF01/30/6/016).

53. As stated above, OIP maintains constant contact with professional societies and industrial organizations and is, therefore, current on the costs of services. However, the recommendation is noted.

Recommendation 17: OIP management should obtain details of "audit visits" undertaken by the Contractor and if no such visits have taken place, recover an estimated amount of \$270,000 for 36 such required visits up to phase nine (AF01/30/6/017).

54. It is more effective and efficient to have an overall team leader positioned within Iraq that have total responsibility for "auditing" functions on an on-going basis of review and action, rather than only periodic "audit" visits, which are after all *post facto*. In this regard, OIP does not consider that any recovery is due.

Recommendation 21: OIP management should establish an appropriate approval process for candidates proposed by the contractor in accordance with the contract (AF01/30/6/021).

55. There are consultations between OIP and the contractor in the selection of candidates. However, consideration will be given to establish a formal procedure for conveying approval of candidates proposed by the contractor.

UNITED NATIONS



NATIONS UNIES

INTERNAL AUDIT DIVISION
OFFICE OF INTERNAL OVERSIGHT SERVICES

Reference: AUD-7-1:31 (1023 / 02)

3 July 2002

To: Mr. Benon Sevan, Executive Director
Office of the Iraq Programme

From: Esther Stern, Director
Internal Audit Division, OIOS

Subject: **OIOS Audit No. AF2001/30/6: Audit of the management of the oil inspection services Contract**

1. A draft audit report on the above-mentioned subject was issued on 7 December 2001 requesting a response by 15 January 2002. The deadline for the response was eventually extended, for approximately 2.5 months, until 31 March 2002. Subsequent to the issue of the final version of the report on 15 April 2002, a reply to the recommendations was received from OIP, addressed to the OIOS USG, under a covering memorandum dated 17 April 2002. In order to address the response to the recommendations, OIOS has decided to issue a revised version of the final audit report incorporating OIP's comments.

2. Based on your response to the report, we are pleased to inform you that we have closed recommendations 001, 005, 006, 012, 015, and 021 in the IAD recommendation database. In order for us to close out the remaining recommendations - recommendations 002 to 004, 007 to 009 to 011, 013, 014, and 016 to 020 - we request that you provide us with additional information as indicated in the text of the report and a time schedule for implementing each of the recommendations. Please refer to the recommendation number concerned to facilitate monitoring of implementation status.

3. IAD is assessing the overall quality of its audit process and kindly requests that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.

4. Thank you for the assistance and cooperation provided to the auditors on this assignment.

Copy to: Mr. J. Connor
Mr. J.P. Halbwachs
UN Board of Auditors
Mr. D. Knutsen
Mr. J. Prasad



United Nations
OFFICE OF INTERNAL OVERSIGHT SERVICES
Internal Audit Division



Audit subject: Management of the oil inspection services Contract

Audit No. AF2001/30/6

Report date: 3 July 2002

Audit team:

Dagfinn Knutsen, Auditor-in-Charge

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Anna Halasan, Audit Assistant

**Audit of the management of the oil inspection services Contract
(AF2001/30/6)
Executive Summary**

From March through August 2001, OIOS conducted an audit of the management of the oil inspection services Contract between the United Nations and Saybolt Eastern Hemisphere B.V. (the Contractor). The focus of the audit was on administrative and management aspects of the Contract. The audit found that there are substantial costs that should be recovered from the Contractor as a result of overcharged and overpaid amounts and unjustified and unsubstantiated expenditures. Moreover, OIP should in future contracts consider altering certain contractual arrangements in order to ensure more cost effectiveness.

Results in brief:

- A review of 19 monthly Contractor's invoices found inadequate procedures to monitor invoice payment and ambiguities in supporting documentation leading to estimated overpayments of approximately \$186,000.
- Excessive charges have been made for company and personal communication costs. Substantial savings could have been achieved if communication costs were paid on an actual basis.
- Charges by the Contractor for accommodation and local transportation were excessive and were not based on the fact that the Government of Iraq often provided these services free of charge. Had this been taken into account, estimated savings of \$471,000 could have been achieved.
- Despite transportation costs being provided for in the Contract, amendments were made for the purchase of vehicles.
- The Contractor had made excessive charges for certain additional services such as providing equipment for spare parts inspectors, engaging four additional experts, transportation charges for consultants, etc. In addition, invoices were paid without adequate supporting documentation and justification.
- \$235,350 was paid to the Contractor for providing a "Comprehensive survey of the oil industry in Iraq". An exception to bidding for this service was resorted to in awarding the contract (PD/C0003/00). However, no measures were taken to assess the reasonableness of the Contractor's proposal, and payment was made without any supporting documentation being submitted.
- Audit visits as provided for in the Contract had not been made by the Contractor, resulting in overpayments of \$270,000.
- The Contractor had not been charged for the services provided by United Nations Office of the Humanitarian Coordinator in Iraq (UNOHC). *Are their any?*

- No procedures had been established to monitor the services of the Contractor, in the absence of which it is not clear as to how OIP had assessed the quality of services provided.
- Agreeing to pay for equipment costs, built into the per-man day cost structure, had resulted in the UN paying approximately \$1.2 million for the Contractor's equipment. This cost appeared excessive compared to the value of actual equipment in use by the Contractor.
- OIP had not been scrutinizing the curriculum vitae of the Contractor's staff effectively, even though they are required to do so under the Contract.

Major recommendations:

OIP should:

- Strengthen the procedures for approving the Contractor's invoices by requiring complete supporting documentation and performing detailed verification of them.
- Establish a contract management unit in Iraq whose functions should include reviewing invoice supporting documentation, maintaining attendance records for contractors, assessing requests for additional equipment and services by the Contractor, and providing input for evaluation of the services provided.
- Recover approximately \$186,000 due to overcharging for excess numbers of staff at designated locations and mistakes apparent from records. OIP should review all Contractor invoices to determine the correct recoverable amount.
- Consider amending the Contract so that communication, local transportation and accommodation cost are segregated from the per-man day cost structure and are reimbursed based on verifiable supporting documentation.
- Consider amending the Contract to segregate the Contractor's equipment costs from the per-man day cost structure. There should be a one-time reimbursement of the actual cost with some provision for maintenance.
- Check contracts for additional services for reasonableness, obtain additional quotation and full justification and documentation to support payments.
- Bill the Contractor for the services provided by the UN to the Contractor at the standard cost for third parties.
- Develop a clear mechanism to monitor and evaluate the performance of the Contractor, both at the field and Headquarters level.
- Develop appropriate procedures to approve Contractor's personnel more effectively.

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I. INTRODUCTION

1. From March through August 2001, OIOS conducted an audit of the management of oil inspection services Contract between the United Nations and Saybolt Eastern Hemisphere B.V. (the Contractor). The audit was conducted in accordance with the general and specific standards for the professional practice of internal auditing in United Nations Organizations.
2. One of the functions of the Office of Iraq Programme (OIP), under Security Council Resolution (SCR) 986 (1995) is to oversee the export of oil and oil products from Iraq through approved export points. In addition, OIP is responsible for monitoring the end use of oil equipment and spare parts that are being procured by Iraq to improve its decaying oil industry infrastructure.
3. The initial Contract with Saybolt Eastern Hemisphere (Contract no. PD/CON/127/0065/96), was awarded in August 1996 as a result of a request by the Department of Political Affairs (DPA) for the provision of independent experts in international oil trade in accordance with SCR 661 (1990). Since the initial Contract, twelve amendments have been made, including four amendments for additional labour and travel costs. Recently, a new bidding exercise was conducted by the Procurement Division (PD) which resulted in the Contractor again being awarded the Contract (Contract no. PD/CO114/00).
4. The new Contract extends from 29 May 2000 until 28 May 2001 with an annual contract value not to exceed \$5,316,150 and an aggregate value of \$21,264,600. Moreover, the new Contract provides for an option to renew it for three successive one-year periods, under the same terms and conditions, including price. In addition to this Contract, OIP has also entered into other contracts with Saybolt to carry out studies separate from this Contract. The Contractor currently employs 14 inspectors to oversee oil exports from Zakho, in Northern Iraq, and Umm Qasr, on the Persian Gulf, and six inspectors are employed to monitor the end-use of oil equipment and spare parts imported by Iraq.
5. A request was sent to OIP to arrange for an exit conference in order to discuss the findings and recommendations resulting from the audit. However, OIP management did not respond to our request. The draft audit report was then sent to OIP on 7 December 2001 with a deadline of 15 January 2002 to respond to the audit recommendations. A final audit report was therefore issued on 15 April 2002. The current report has been amended to take into accounts comments subsequently received from OIP. The comments are indicated by the use of italics.

II. AUDIT OBJECTIVES

6. The major objectives of the audit were to:
 - (i) Assess OIP's management of the Contract, both in Iraq and at Headquarters, with respect to the obligations of the Contractor and OIP under the terms of the Contract, and procedures to verify and evaluate the Contractor's performance, receipt of services, and to review and pay invoices;

- (ii) Determine if the Contractor provides the required services in an economical, efficient and effective manner; and
- (iii) Review the management of other services being provided by the Contractor.

III. AUDIT SCOPE

7. OIOS conducted a previous audit (A/55/746) on the procurement aspects of this Contract. The current audit therefore focused on contract management issues. The audit consisted of a review of the Contract, invoices, and OIP's procedures to evaluate the Contractor's performance. In addition, physical inspections of the Contractor's operations were carried out in Iraq and Turkey. We interviewed OIP officials in New York and Iraq. In addition, with OIP's agreement and cooperation, we directly contacted the Contractor to provide us with explanations and certain documentation concerning their working arrangements.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Monitoring of invoice payments and financial matters

Procedures have not been implemented to monitor invoice payments

8. The Contract and amendments required the Contractor to provide a total of 14 Oil Inspectors with a breakdown of six at Mina-al-Bakr, three at Zakho, and five at Ceyhan in Turkey. In addition, amendment number 8 of the Contract provided for six spare parts inspectors (two each at three different locations). The number of inspectors, whether for oil or spare parts, is the only measurable parameter by which the UN authorized payment to the Contractor. Hence, an accurate attendance record is essential to support the monthly invoices submitted by the Contractor. Our review of procedures found however, that they were lacking basic financial checks and balances, resulting in a number of incorrect payments.

9. A review of 19 monthly invoices and supporting documents found the following deficiencies:

- (i) The attendance record was ambiguous since in many cases it reflected the attendance "from arrival to departure Amman", whereas the payment to the Contractor should only be made for manning the locations in Iraq and Turkey. This could have resulted in payment for staff not at the work locations.
- (ii) The attendance sheet did not relate to the month written on it. For example, if the month is written as "June" that has 30 days, the attendance details are for 31 days. This irregularity, found in 18 of the 19 invoices reviewed, was never questioned by OIP.
- (iii) In the initial Contract, payments were to be made in lump sums; 30 per cent three months after start of Contract, 30 per cent six months after start, and 40 per cent upon

satisfactory completion of the Contract. The relevant invoices had no supporting documentation such as attendance sheets, on which to base the payment. Hence, there was a lack of any internal control.

- (iv) While the numbers of the Contractor staff present at a location are the vital parameter for payments, our review of the monthly invoices revealed that the Contractor had often maintained staff at each location both lower than, and at times, in excess of OIP requirements. ~~This may have been~~ due to the Contractor's rotation/leave policy for staff.

Recommendations 1, 2 and 3:

OIP management should:

- (i) Request the Contractor to modify the supporting invoice documents (attendance sheets), to clearly indicate the exact location of their staff which is currently indicated as "from arrival to departure Amman", which would enable OIP to verify the invoice (AF01/30/6/001);
- (ii) Review the arrangement whereby the Executive Director certifies invoices, and institute specific procedures for checking and approving invoices (AF01/30/6/002); and
- (iii) Establish a contract management unit in Iraq whose functions should include reviewing invoices' supporting documentation, verifying the Contractor's attendance records, monitoring additional requests for equipment and services by the Contractor and providing input for evaluation of the services provided (AF01/30/6/003).

10. *OIP agreed with recommendation 001, indicating that as of December 2000 the attendance record has shown "personnel attendance on location, from arrival to departure."* The recommendation has been closed. OIP did not provide a comment on recommendation 002 hence the recommendation remains open.

11. *Recommendation 003 was not agreed to and OIP stated that the contract was managed by OIP rather than UNOHCI so as not to unduly compromise UNOHCI's mandate. OIP also stated "that to the extent possible, efforts have been made by OIP to institute appropriate procedures that would ensure that the contractor fully discharges its contractual responsibilities. OIP also stated, "we have the expertise within OIP at the Headquarters, including the Oil Overseers and the group of oil spare parts experts with whom Saybolt has to work very closely, almost on a day-to-day basis."* OIOS would like to clarify that it did not intend for UNOHCI to undertake the contract management function, but rather that OIP be in charge of this function. Furthermore, the Oil Overseers informed us that they have no active part in the management of the contract and only use the information provided by the Contractor. Nonetheless, we are pleased to note that appropriate procedures have been established by OIP. In order to close this recommendation we request that

OIP provide us with a copy of the procedures. We also request that OIP reconsider establishing a formal contract management unit in the field.

Overpayment of monthly invoices needs to be recovered

12. A review of invoices found that inadequate scrutiny had led to irregularities resulting in overpayments of approximately \$370,000, which should be recovered from the Contractor (as detailed in the Annex) on account of overcharging, and short and excess stationing of staff. The following discrepancies were found:

- (i) On a few occasions, the Contractor had overcharged OIP since the attendance record showed lower man-days than those charged;
- (ii) It was observed that the Contractor had often maintained lower strengths than that required by the Contract. However, OIP did not deduct any amounts for such non-performance; and
- (iii) The Contractor had charged for additional staff in excess of contractual requirements, which had been paid by OIP.

In our opinion, the poor attendance recording practices by the Contractor resulting in overcharging indicates a lack of professionalism and should be immediately rectified as recommended above.

Recommendations 4 and 5:

OIP management should:

- (i) Recover the overpayment of \$186,000, as indicated in Annex from the Contractor in subsequent billings (AF01/30/6/004); and
- (ii) Review all other monthly invoices to determine if any further amounts need to be recovered from the Contractor on account of over-billing and short/excess maintenance of staff. This review should also cover those invoices without supporting attendance sheet (AF01/30/6/005).

13. *OIP disagreed with recommendation 004, and stated that the auditors did not understand the billing mechanism which was based on staff on site rather than contracted staff levels and that the invoice of a month covered the period from 29th of the previous month to 28th of the month of the invoice. It further stated that accordingly there was no overpayment involved except for the month of June 1999 (overpayment of 17 man-days) which would be deducted from a future payment. OIOS was aware that the contractor had charged for the staff actually present at the sites instead of the numbers required as per the contract. OIOS had recommended recovery of the amounts which had been paid by OIP for (i) overcharges for additional staff in excess of contractual requirements and (ii) on account of mistakes apparent from records. Concerning the failure of the Contractor to maintain the staffing levels agreed to in the contract, OIOS is of the opinion that there should be a penalty*

clause in the contract for such non-performance. The Annex has been amended to reflect our revised calculations. Furthermore, OIOS wishes to note that the indication of dates on a monthly invoice from 29th of the previous month to 28th of invoiced month, as stated by OIP, is not relevant to the calculation of overpayments, which were done by comparing the strength actually present to that required, on a day-to-day basis in accordance with the Contract provisions. Thus, we request OIP to re-consider this recommendation and, accordingly, the recommendation remains open.

14. *Paragraph 16 of OIP's reply states that the contract, "...provides for full payment for complete and satisfactory performance by the contractor of his obligations under the contract. In that regard, it could be argued that once the requirement of satisfactory performance is met, the 'deficiency' in the attendance record becomes a non-issue."* This appears to imply that the contract's requirement for inspectors is flexible. If this were the case, then it would be appropriate to amend the contract to state the actual requirements and not to pay for additional unneeded inspectors.

15. *OIP has indicated in its response to recommendation 005, that a review of invoices had only revealed two minor discrepancies.* The recommendation has therefore been closed.

Communication charges by the Contractor have been excessive

16. A review of the tariff structure (appendix III of the proposal of June 1996) proposed by the Contractor, clearly indicated that all expenses such as labour, compensation, hotel, boarding and lodging, travel expenses, local transport, communication, insurance, risk premium, insurance, sample material transport and equipment were taken into account in arriving at the contract price. Included in the proposal were communication expenses of \$603,000, which is about 21 per cent of the total contract amount. For the initial six months of the Contract this amounted to approximately \$380,000.

17. Despite this huge expenditure, the Contract did not provide for any requirement to justify the expenses incurred. The communication expenses were essentially due to the use of a satellite communication system (Satcoms). The UN did not consider alternative options such as using the UN telecommunication system, which would have reduced the communication expenses significantly, apart from being transparent in terms of identification of all calls including personal ones. Hence, an opportunity to effect substantial savings had been forgone. With regard to the spare parts inspectors, the UN agreed to communication expenses of \$288 per day for each of three locations. Later on the communication expenses of \$288 was merged with the tariff for inspectors at \$699 per man-day.

18. While PD and OIP attempted to require presentation of actual bills in authorizing payment for telecommunications, the Contractor had not agreed to this stating in an e-mail dated 02/06/98 that "From the beginning we have been asked to quote a tariff structure which was all in. Your suggestion to extract the communication cost from our per man per day fee is in opposition to this philosophy, also it is not technically possible. Although our quotations clearly contain estimates, we have based our costs on empirical information from the previous phases. As our communication costs in Rotterdam are not separable in anyway, this can not be substantiated by invoices". In our view, there

is a high probability that the UN may be paying more for the communication expenses, than the Contractor is actually spending.

Recommendations 6 and 7:

OIP management should:

(i) In future contracts with the Contractor (or any other contractor) separate the communication expenses from the man-day tariff structure and reimburse these on presentation of detailed documentation (e.g. invoices from service providers) (AF01/30/6/006); and

(ii) Investigate the use of alternative communication options including the use of UNOHCI's telecommunications network with appropriate reduction in the Contract price for communication charges (AF01/30/6/007).

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19. OIP took note of recommendation 006, and stated, "on-line costs were renegotiated in the current contract, PD/COI 14/00, resulting in substantial savings on communications costs." It also stated that this recommendation would be taken into account in the negotiation of future contract proposals. OIP also noted that the Procurement Division questioned the practice of including communication and equipment costs in the man-day-rate structure, and indicated they would be more "comfortable" with one time "non-recurring" costs. However, the contractor opposed this approach stating, "From the beginning we have been asked to quote a tariff structure which was all in." Based on OIP's response, we have closed this recommendation.

20. OIP disagreed with recommendation 007 and stated in its reply that the auditors had not adequately taken into account the location of the inspectors, and the logistics and political difficulties for UNOHCI to expand its telecommunication system to these areas. However, OIOS wishes to note that it is not aware of any attempts by OIP to determine the feasibility of adding the contractors to the UNOHCI network in Iraq. In our view, the feasibility of doing this should have been looked into. This recommendation remains open pending OIP's review of the feasibility of adding the Contractors to the UNOHCI network.

OIP needs to recover personal phone calls made by the Contractor's staff

21. We found that the Contractor's internal policy is to allow each of its staff members free private telephone calls totaling up to 45 minutes per month. In Turkey, it was ascertained that staff members were not charged at all for personal calls, as these were not substantial in the Contractor's view. Since the total communications cost is included in the man-day cost structure, private telephone calls of the Contractor staff members are being charged to OIP.

22. Based on a cost of \$3 per minute, the estimated free telephone service being enjoyed by the Contractor's staff (excluding Ceyhan cost) using Satcom in Iraq would be on the order of \$2,025 per

month or a total of \$12,150 per six-month phase. We are of the opinion that this benefit should not have been charged to OIP.

Recommendation 8:

OIP management should take steps to stop payment of personal telephone calls of the Contractor staff and recover the amounts overpaid which is estimated at \$109,000 for the first nine phases of the programme (AF01/30/6/008).

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507 bill.

23. OIP disagreed with recommendation 008 and stated in their response that there was no evidence that personal telephone calls are charged to OIP. It also believed it would be contrary to the terms of the contract to demand such reimbursement. OIOS is of the opinion that OIP should obtain a monthly statement from the Contractor indicating telephone usage to ensure that only official calls are charged to the UN. In addition, future contracts should not tie phone charges to the man-day-rate but rather should be charged separately. In this regard, we found that PD had requested itemized billing of telephone calls from the Contractor, but was informed that this was not technically feasible. However, OIOS notes that since the Contractor is able to separate personal phone calls for its staff, presumably it can also do this for charges to OIP. In order to close this recommendation, we request for OIP to ascertain the actual personal calls made by the Contractor staff and to recover the amount of these charges.

Accommodation and local transportation charges included in man-day billing rate have been excessive

24. Based on the Contractor's proposal of June 1996 and subsequent proposals, expenses for accommodation and local transport were included in the per-man-day fee structure at the rates of 2.85 per cent (\$83,700 out of a total of \$2,940,100) and 5.32 per cent (\$156,400 out of a total of \$2,940,100), respectively. However, we found that at Zakho and Mina-al-bakr, the Government of Iraq oil company had provided accommodation for the Contractor's staff. Despite specific queries to the Contractor whether they are paying any cost towards accommodation, no response was received. In addition at Zakho, the oil company had provided the Contractor with two cars for local transportation.

25. Based on the Contract proposal, we estimated that cost per-person-per day is around \$20 for accommodation and \$37 for transportation. This has resulted in an overpayment of approximately \$471,000 (for nine oil inspectors at Mina-al-Bakr (6) and Zakho (3) in the case of accommodation charges and three oil inspectors at Zakho in the case of local transportation charges) for the nine completed phases.

Recommendations 9 and 10:

(i) OIP management should recover overpayments for accommodation and transportation of approximately \$471,000 from the Contractor (AF01/30/6/009); and

(ii) Future contracts with the current or other contractors should take into account free accommodation and transportation provided so that the UN obtains best value for money (AF01/30/6/010).

26. *Regarding recommendation 009, OIP stated "...in Iraq, it is a well-know fact that these types of expenses to be incurred in Iraq would have to be compensated, but under the restrictions of sanctions, no payments could be made within Iraq in any other currency but Iraqi dinars. This has led to special arrangements by the contractors, ..." OIP also stated, "the contract is all-inclusive, therefore...no reimbursement is due."* From this response it is not clear whether the contractor has in fact paid the GOI for accommodation expenses and the transportation provided for its staff. In order to close this recommendation, we would appreciate being informed of the arrangements made and the amounts actually paid to the GOI by the Contractor.

27. *OIP appears to have agreed with recommendation 010, stating in paragraph 28 of its response "...the points raised in the Report regarding the cost structure, could be utilized in the negotiations for the next contract." In order to close this recommendation we request OIP to confirm that it will amend the cost structure in future contracts.*

Transport costs provided for in the Contract have been charged

28. The initial Contract, as well as the new one, specified that the price included all costs such as transportation, equipment, etc. We found that, notwithstanding specific provisions in the Contract to the contrary, amendment number three provided for computer equipment for two spare parts inspectors at a cost of \$17,800. Furthermore, as per the proposal of the Contractor, dated 19 September 2000, the cost of vehicles for spare parts inspectors was also authorized at \$39,000. In this regard, we note that the man-day rate provides for transportation costs of 2.85 per cent. In our opinion, adequate provision was made in the Contract for transportation and no justification was given for amending the Contract to provide additional transport. This arrangement was not transparent and appeared to double charge the UN for these costs.

Recommendation 11:

OIP management should ensure that future contracts with this Contractor or other contractors be based on actual equipment cost and not incorporated in the man-day rate (AF01/30/6/011).

29. *OIP appears to have agreed with recommendation 011, stating in paragraph 28 of its response "...the points raised in the Report regarding the cost structure could be utilized in the negotiations for the next contract." In order to close this recommendation we request OIP to confirm that it will amend the cost structure in future contracts.*

30. It was also found that the Contractor proposed and the UN approved (Amendment number 11 to the Contract) for the purchase of three vehicles for the spare parts inspectors at a cost of \$19,500, \$24,500 and \$24,500 respectively. All these vehicles were to be Toyota Land Cruisers Prado STD with the only difference that, while the cheaper one was white in colour, the other two at \$5,000 extra cost were green and beige. We are of the opinion that the UN should have not allowed and paid for different color vehicles which led to unjustifiable expenditure of \$10,000.

Recommendation 12:

OIP management should ensure that specification for vehicles are in accordance with the UN standards and avoid unnecessary specifications involving additional costs (AF01/30/6/012).

31. OIP stated in its reply to recommendation 012, that because of the urgency of the situation, it was decided to purchase vehicles with different costs and colours that were immediately available. Based on this explanation we are closing this recommendation. However, in the future we urge OIP to standardize the vehicle specifications in accordance with UN standards in order to minimize costs.

Non-expendable equipment purchased by the Contractor had not been adequately accounted for

32. As noted above, the UN had authorized the Contractor to purchase equipment including vehicles, and communication equipment like satcoms, computers and software. We found that the equipment paid for by the UN did not have any UN asset number affixed and had never been inspected by the UN. Furthermore, the equipment was not entered into OIP's inventory system, and there had been no periodic checks on these assets as required by UN financial rules.

Recommendation 13:

OIP management should ensure that UNOHCI takes stock of the equipment purchased by the Contractor and paid for by OIP, record them in the inventory system, and routinely perform physical verification (AF01/30/6/013).

33. OIP disagreed with the recommendation stating, "The contract is all-inclusive... In this regard, the communication equipment, computers and software are not UN property, and therefore there is no corresponding requirement for an inventory." OIOS points out that the equipment referred to in this report was purchased separately by the contractor outside of the contract, under separate amendments. Hence, the equipment is UN property and should be fully accounted for and recorded in UN property records. In order to close this recommendation, we request that evidence be provided showing that this equipment has been recorded in UNOHCI's asset register.

Review

Charges for additional services provided by the Contractor have been excessive and inadequately monitored

34. From time to time OIP requested the Contractor to provide proposals for additional services. The cost proposals submitted by the Contractor had been accepted without any evidence of price negotiations or tests of reasonableness. Moreover, payment for these services had been made without documentation to support the invoicing such as original bills for purchases, tickets, vouchers, etc. These are basic procedures when paying for goods and services and should have been performed by OIP as a matter of routine before payment was made.

35. For example, for the purchase of communication equipment for spare parts inspectors valued at \$17,800, no effort was made by OIP or even through UNOHCI to verify that the new equipment had actually arrived or that the equipment was in conformity with authorized standards before payment was released.

36. In another case, \$67,600 was agreed to by OIP for services of four experts for a 10-day period (Amendment number 9, June 1999) without any verification of the reasonableness of the charges. A review of invoices indicated excessively high charges by the Contractor and acceptance by the UN without any questioning. The fees for these experts were \$2,000, \$1,500, \$1,500 and \$900 per day. These were much higher even by the Contractor's standards for senior inspectors/oil monitors, which the Contractor charged a maximum \$699 per day including all costs. Furthermore, their trips from Amman-Baghdad-Amman were charged for and paid at the rate of \$750 round trip, instead of the standard cost of \$150 each way. It should be noted that whereas the Contractor charged \$7,200 for the airfares for these four experts both for inward and outward flights to Amman, \$3,000 was charged just for the Baghdad-Amman-Baghdad road journey.

37. A separate Contract (PD/C0003/00 dated 13 January 2000, in the amount of \$236,400) was entered into with the Contractor to provide a report on the state of the Iraqi oil industry. While an exception to bidding was approved by the Department of Management, there was no indication that OIP had checked the reasonableness of the Contractor's proposal, which was accepted exactly as proposed. Considering the high value of the Contract it would have been expected that some of the charges should at least have been checked for reasonableness and quotations obtained from other consultants to provide this service. This could have been done without going into a full bidding exercise and within the time constraint required to report to the Security Council.

38. Furthermore, the invoice amounting to \$235,350 (Invoice 987/00 dated 30 March 2000) was subsequently paid without any receipts for any of the expenses claimed by the Contractor, and without any evidence of review of the propriety or reasonableness of the charges. While the per day fee for the Contractor staff on this mission, ranged between \$900 to \$2,000, no supporting document was provided for the airfares (\$21,500), boarding and lodging (\$22,500), miscellaneous (\$5,000) and video presentation (\$5,350). In our view, these instances indicate the lack of adequate control procedures.

Recommendations 14, 15 and 16:

OIP management should:

- (i) Take immediate steps to ensure that all payments have appropriate supporting documentation before payments are made, and that charges are checked for reasonableness (AF01/30/6/014);
- (ii) Obtain clarification from the Contractor for the excessive charge of \$3,000 for the Amman-Baghdad trip and recover the overpayment of \$2,400 from future invoices (AF01/30/6/015); and
- (iii) Implement procedures for procuring urgently required services, which should include: obtaining quotations from other suppliers; checking the reasonableness of quotations based on actual costs; and negotiating costs with the selected supplier (AF01/30/6/016).

39. OIP did not provide a response to recommendation 014 on whether they would ensure that adequate checks are made for invoices prior to payment. In order to close the recommendation we request a response indicating what steps have been taken to implement it.

40. OIP agreed with recommendation 015, and indicated that it would arrange to deduct the overpayment. The recommendation has therefore been closed, however we request OIP to provide us with documentation indicating recovery of these costs.

41. OIP took note of recommendation 016, stating that it maintains comparative information to determine the reasonableness of proposals. It further stated that it was therefore able to "discuss quickly with experts whether technical and financial proposals were reasonable." OIP also stated, "...that the contractor's proposals were fully considered by the Oil Overseers." OIOS points out, however, that during the audit, no documentation was available to indicate that a reasonableness check had been done for this contract. Furthermore, during interviews conducted at UNHQ, the Oil Overseers stated that they were not responsible for any issues concerning the contractual arrangements with any contractor. In order to close this recommendation we would therefore appreciate being provided with the analysis done to determine the reasonableness of the proposal discussed in paragraph 37.

The Contractor had not conducted "audit visits" as provided for in the Contract

42. The Contractor's proposal dated June 1996, provided for a coordinator from Rotterdam to "audit" their operation in Iraq every six weeks. Clearly, the cost of these visits would have been included in the overall price proposed by the Contractor. Accordingly, for the nine completed phases the Contractor should have undertaken 36 such visits (the cost charged by the Contractor for one trip to Iraq was \$7,500). The Contractor was unable to provide any information indicating that such visits had taken place.

Recommendation 17:

OIP management should obtain details of "audit visits" undertaken by the Contractor and if no such visits have taken place, recover an estimated amount of \$270,000 for 36 such required visits up to phase nine (AF01/30/6/017).

43. OIP disagreed with recommendation 017, stating that it was the Contractor's Iraq team leaders role to audit operations and that this was more effective and efficient. It was also stated "the technical head of the Iraq team for Saybolt regularly undertakes missions to Iraq and cost of these visits is included in the overall cost of the contract." As such, OIP did not consider that any recovery is due. OIOS points out that paragraph 3.2 of the Contractor's proposal, which is an integral part of the Contract, specifically calls for "audit" visits, which in our view are separate from the regular visits made by the technical head. However, since these visits had not taken place and in the absence of information provided by OIP on the number of visits undertaken by the technical head, we reiterate that the associated costs should be recovered. In order to close this recommendation we request that OIP provide us with documentation indicating that action has been taken to recover the costs paid for the required visits.

Services provided by UNOHCI have not been adequately charged to the Contractor

44. Under Article 7 and 8 of the new Contract (Article 8 and 9 of the old Contract), the UN was to provide only identity cards for the Contractors' personnel and allow access to UN transport only in cases of evacuation due to security developments, and medical evacuation. However, it was ascertained that UNOHCI provided many services including UN letters for visa support application for vehicle registration, issue of Iraq driving licenses, importation of equipment requiring customs clearance, repair and maintenance of vehicles (since June 2000), supply of walkie talkies, etc. In the initial phases UNOHCI was also providing transport facility to the Contractor. In fact UNOHCI has earmarked a senior official to deal with matters relating to the Contractor. It was also noticed that the UN Guards Contingent in Iraq (UNGCI) has provided Motorola radio sets to the Contractor.

45. While these services are necessary to enable the Contractor to function and should continue, in as much as these were not covered by a provision of the Contract, the cost of these services should be recovered from the Contractor. We found that only on seven occasions, between June 1999 and August 2001, had UNOHCI charged the Contractor a total sum of \$1,447.21 for various services.

Recommendation 18:

OIP management should quantify the financial implication of services provided to the Contractor by the UN and recover the amounts based on standard mission charge out rates (AF01/30/6/018).

46. OIP disagreed with recommendation 018 stating, "the auditors should review Section VIII of the MOU, concerning Privileges and Immunities." This Section of the MOU deals with the right of

access of the UN, inspectors, etc. to Iraq and the obligations of the GOI and it is not clear how this relates to charging for services provided by the UN under the contract. The services to be provided by the UN are clearly spelled out in the contract as indicated in paragraph 43 above. Services, additional to these, should be charged for. In order to close this recommendation, we request that OIP determine cost of the services provided to the Contractor, and make every effort to recover those costs .

B. Monitoring Contractors performance

OIP officials charged with monitoring the Contract had not made inspection visits to Iraq

47. In Article 11 of the Contract, the UN reserved the right to inspect and test all services performed by the Contractor at all reasonable times and places during the period of the Contract. We found that while the OIP has in fact never exercised this right, OIP on all invoices and during presentation of the case for extension to the Headquarters' Committee on Contracts had stated that the services being provided by the Contractor were satisfactory and in full consonance with the Contract agreement. No formal evaluation has been made by OIP to determine the basis of this assessment.

48. While the Contract is mainly performed in Iraq (other than one location at Ceyhan, Turkey), OIP had not appointed anyone in Iraq to manage the Contract, in the absence of which there can be no assurance that the services were provided in consonance with the spirit and letter of the Contract. This is also indicated by the fact that many of the irregularities pointed out through this report would have had a better chance of being detected had contract management staff been located in Iraq.

D. Contract issues

Need to separate the cost of Contractor's equipment from the man-day fee structure

49. Based on the tariff structure proposed by the Contractor, equipment purchased to perform the Contract built into the man-day fee structure for oil inspectors amounted to 7.82 per cent of the Contract cost (\$230,000 out of a total of \$2,940,000).

50. This means that OIP pays about \$55 per day per inspector for equipment costs or approximately \$1.2 million for the nine phases. A review of the inventory list provided by the Contractor indicated that the actual cost of equipment was far less than the amount reimbursed through the tariff structure. However, the exact amount could not be determined, as the Contractor did not provide the cost of some of the equipment items. In OIOS' view, it was clearly not the intent of the Contract for the UN to pay costs of equipment far exceeding their actual value.

51. In our opinion, equipment should have been charged to OIP as a one-time expenditure with an additional provision for maintenance of the equipment. That option would have been much cheaper, instead of paying for the equipment cost during all nine phases. We estimated that this has resulted in excessive payments of approximately \$1 million.

Recommendations 19 and 20:

OIP management should:

- (i) Provide for reimbursement of one-time equipment costs in future contracts in order to avoid the uneconomical arrangements of the current Contract (AF01/30/6/019); and
- (ii) Negotiate with the Contractor to recover approximately \$1 million paid for equipment in excess of its actual cost and to stop further payments for the equipment cost component in the current Contract (AF01/30/6/020).

52. OIP did not provide a response to recommendation 019. In our opinion, separating the cost of equipment from the man-day contract structure would be a more economical arrangement for the Organization. We therefore reiterate this recommendation.

53. *OIP disagreed with recommendation 020 stating, "While the comments are too vague to constitute a valid finding, it is clear that the auditors did not take into full consideration the ongoing maintenance, repair and replacement costs that are factored into the contract..." OIP also stated, "...had the auditors been in touch with Saybolt's headquarters, they could have received the information regarding the costs of 'some of the equipment'..."* OIP may not be aware that OIOS had contacted the Contractor's team leader in Iraq and requested the relevant information from him. This and other information requested was only partially provided. We remain concerned that under the current arrangement there is no relationship between the actual cost of equipment requirements purchased by the Contractor and the amount paid under the man-day-structure of the contract. We therefore request that OIP re-examine this issue and provide us with information on the steps taken to resolve the matter of excessive payments for equipment provided for under the contract.

Scrutiny of CVs of Contract personnel have been ineffective

54. The Contractor proposed (paragraph 1.1 of the Contractor's proposal of June 1996) that in view of importance and strict compliance with the relevant Security Council Resolutions (SCRs) and Memorandum of Understanding (MOU) with the Iraqi Government, each member of the team should be fully independent and consist only of people with proven experience, but without any existing connection to the oil industry. Accordingly, their recommendation was to form a team of pensioners, as it was not unusual in the oil industry to retire when about 45 years old. The Contractor further stated that it was capable of forming such a team of specialists with proven competence, integrity and neutrality within 48 hours. According to Article I of the Contract, the Contractor's proposal of June 1996 was an essential part of the Contract with the UN. A review of the CVs of pre-selected candidates (appendix II of the offer of the Contractor of June 1996) is summarized in the following table:

Candidate no.	Age	Educational qualification	Experience (years) with the Contractor	Other professional experience (Years)
1	53	Several school certificates	23	
2	57	Several school certificates	25	
3	42	High School and nautical academy	11	
4	34	Nautical college	7	
5	58	High School	5	34
6	31	Several School certificates	6	
7	38	O level/A level	7	
8	47	HND Chemistry	9	
9	33	B.Sc. Electronics Engineering	5 months	5
10	37	High School	4	14
11	N/A	High School	1	6
12	44	Master Mariner	1	11
13	35	Qualified marine Ch Officer	2	7
14	33	High School (Chemist)	6	
15	37	Marine School	6	13
16	38	Ist Class Marine Engineer	10 months	17
17	33	Intermediate (HSC)	8	
18	34	Intermediate (HSC)	14	
19	32	Intermediate (HSC)	8	
20	32	Intermediate (HSC)	9	
21	32	Intermediate (HSC)	9	8
22	34	B.Sc. Degree	8	3
23	32	Technical High School	8	2
24	35	Mechanical Engineer	7	2
25	32	Diploma B.Sc.	6	
26	38	Chemical Engineer	1	11
27	N/A	High School	2 months	14

55. A perusal of the above table indicated that, contrary to their assertion that they would form a team of pensioners, the proposed candidates had varying ages and there was a lack of consistency in terms of experience. Another requirement of the Contract is that the UN should approve all candidates as submitted by the Contractor. We found however, that the UN has been approving proposed candidates as a matter of routine, as none of the candidates proposed by the Contractor has

ever been rejected.

Recommendation 21:

OIP management should establish an appropriate approval process for candidates proposed by the Contractor in accordance with the Contract (AF01/30/6/021).

56. *With regard to recommendation 021, OIP indicated that a process is already in place, and that CVs of candidates are discussed with the Contractor on a regular basis and those not accepted are withdrawn. However, OIP agreed to consider establishing a formal procedure.* On the basis of this response, we are closing this recommendation.

V. ACKNOWLEDGEMENT

57. We wish to express our appreciation for the assistance and cooperation extended to the auditors by OIP and UNOHCI during the conduct of this audit.

Esther Stern
Director
Internal Audit Division, OIOS

ANNEX

SAYBOLT OVERPAYMENTS

Invoice month	Amount to be recovered due to calculation errors (\$)	Details of mistakes	Amount of recovery due to maintaining excess staff (\$)	Details of excess staff	Total amount to be recovered [(2)+(4)+(6)] (\$)
1	2	3	4	5	6
June 01			11,488	1 Sr. Spare Pts. Insp. in excess from 9 th to 14 th , 24 th to 28 th and 31 st and two in excess on 29 th and 30 th .	11,488
May 01	12,924	Charged 18 man days extra for Sr. Spare Pts. Insp., as charged for 202 man days instead of 184 per attendance sheet	10,052	14 man days total made up of 2 extra Sr. Spare Pts. Insp. from 13 th to 16, 1 extra on 1 st , 2 nd , 17 th , 18 th , 29 th and 30 th .	30,156
March 01			16,514	23 man days in excess made up of 1 Sr. Spare Pts. Inspector maintained in excess from 4 th to 9 th , 24 th to 28 th and 2 in excess from 18 th to 23 rd .	21,540
Feb. 01			14,341	1 Oil Insp. extra at Ceyhan on 20 th . 19 man days extra for Sr. Spare Pts. Insp. as 1 extra from 4 th to 14 th and 2 extra from 18 th to 21 st .	15,040
Jan. 01			5,744	8 man days extra for Sr. Spare Pts. Insp. as 2 maintained extra from 21 st to 24 th Jan.	7,180
Dec. 00	13,980	20 man days for oil Insp. overcharged as invoiced for 421 instead of 401 per attendance sheet	2,135	1 Sr Spare Pts. Insp. extra on 29 th and 30 th . 1 extra oil Insp. at Mina on 10 th .	29,396
Oct. 00	4,893	7 man days for oil Insp. charged extra as invoiced for 420 man days instead of 413 man days per attendance sheet.			9,786
Aug. 00	15,378	22 man days for oil Insp. Charged extra as invoiced for 434 man-days instead of 412 per attendance			30,756
May 00	655	1 man day for oil Insp. charged extra as invoiced for 420 instead of 419 per attendance sheet			1,310
Apr. 00	16,375	25 man days charged extra for oil inspector as invoiced for 434 instead of 409 per attendance sheet			32,750

Dec. 99			2,540	1 Spare Pt. Insp. excess on 10 th . 3 man days extra for oil Insp. As 1 Oil Insp. excess on 18, 19 th and 20 th at Ceyhan	3,115
Nov. 99	19,809	31 man days charged extra for Sr. Spare Pts. Inspector as invoiced for 93 man days instead of 62 per attendance sheet.	9,505	4 man days in excess for spare Part Insp as 1 maintained extra from 7 th to 10 th . 2 Oil Inspectors extra at Mina from 14 th to 17 th . 1 Oil Inspector extra at Zakho from 26 th to 26 th .	50,433
Oct. 99			16,150	15 man days charged extra for oil inspectors as invoiced for 435 instead of a maximum authorized of 180 11 man days charged extra for Spare Pts. Inspectors as invoiced for 99 instead of max of 90 less 2 (i.e. 88) maintained short on 29 th and 30 th	17,300
July 99			8,515	Excess 9 man days at Mina as 1 Insp. maintained extra on 12 th , 13 th , and 22 nd to 28 th . Excess 4 man days at Zakho as 1 Insp. maintained extra on 8 th , 9 th , 14 th and 15 th .	51,835
June 99			5,240	3 man days extra at Mina on 6 th , 7 th & 8 th (one each). 3 man days extra at Zakho on 9 th , 10 th & 11 th (one each). 2 man days extra at Ceyhan on 18 th and 19 th (One each).	58,399
Total	84,014		102,224		186,238



OFFICE OF THE IRAQ PROGRAMME – BUREAU CHARGE DU PROGRAMME IRAQ

TO: **Mr. Dileep Nair**
A: **Under-Secretary-General**
for Internal Oversight Services

DATE: **17 April 2002**
REF: **ED/2002/OIOS/3**

THROUGH:
SC/DE:

FROM: **Benon V. Sevan**
DE: **Executive Director**

SUBJECT: **OIOS Audit No. AF2001/30/6: Audit of the management of the oil inspection**
OBJET: **services Contract**

I very much regret that I feel obliged to bring to your personal attention the comments of the Office of the Iraq Programme regarding the final Audit report issued by the Internal Audit Division of OIOS, concerning the management of the oil inspection services Contract.

As stated in the report, it took the auditors from March through August 2001 to conduct the above audit, and then it took over three months for the Internal Audit Division to submit the draft report, on 7 December 2001, to this Office for comments thereon by 15 January 2002, during a period when this Office was totally involved with the start of the implementation of a new phase (phase XI) of the humanitarian programme and consideration of the new distribution plan being submitted by the Government of Iraq. Further details as to what happened thereafter are provided in paragraphs 2 to 6 in the attached Note prepared by this Office.

In brief, I should like to inform you that this Office cannot agree either with the findings or the assumptions made by auditors.

I should like to reiterate that I have always welcomed audits, be they internal or external, but I also expect that auditors should understand very well the environment under which we are operating. Above all, they should do their homework and fully understand the resolutions and decisions taken by the Security Council, pursuant to which this programme is being implemented within the context of a very rigorous sanctions regime, including the very restrictive parameters established by the Security Council for the implementation of the programme. They should also understand well the relevant provisions of the Memorandum of Understanding concluded between the Secretariat of the United Nations and the Government of Iraq (S/1996/356).

We have been implementing the programme pursuant to Security Council resolution 986 (1995) under very difficult, complex and highly sensitive political environment. Reading the report, I do not see any appreciation on the part of the auditors of the difficulties encountered. It is always easy to pontificate. I do hope that the auditors concerned do not consider themselves infallible.

Accordingly, I should be grateful if you could kindly review the comments contained in the attached Note with a view to making the necessary revisions to the final report. Otherwise, I very much regret to inform you that we will be going yet again through the most unfortunate situation with regard to a previous audit regarding independent inspection agents, when the comments from the Secretariat, including the opinion of the Legal Counsel, were repeatedly ignored for several years. You know exactly the audit I am referring to.

Should a decision be taken not to revise the above report, I should appreciate it if the attached Note by this Office is issued either as an addendum to the report or as a separate document.

I should also like to have an appointment with you on your return from official travel, as early as possible. I will be in touch with your Office.

cc. The Deputy Secretary-General
Mr. Connor
Mr. Halbwachs
Mr. Myat
Ms. Stern
Ms. Featherstone
Ms. Uchegbu

NOTE BY THE OFFICE OF THE IRAQ PROGRAMME

Comments by the Office of the Iraq Programme
on the final report submitted by OIOS on 15 April 2002

OIOS Audit No. AF2001/30/6: Audit of the management of the oil inspection services contract

1. Following the adoption of Security Council resolution 986 (1995) on 14 April 1995 and the conclusion of a Memorandum of Understanding (MOU), on 20 May 1996, between the Secretariat of the United Nations and the Government of Iraq (S/1996/356), Saybolt Eastern Hemisphere BV (hereafter referred to as Saybolt) was awarded Contract PTD/127/0065-96, in August 1996, to provide the services of 14 individuals with "particular experience and qualifications to assist in monitoring the export of petroleum and petroleum products from Iraq". The contract was for an initial term of six (6) months, with an option of renewal for up to three (3) successive periods of six (6) months, on the same terms and conditions. Contract PTD/127/0065-96 was subsequently amended several times to provide for additional inspectors for oil spare parts, and groups of oil experts that undertook special assignment at the behest of the Security Council. Contract number PD/CO114/00 executed in June 2000 succeeded contract PTD/127/0065-96. Under the new contract, which is for one year, with an option of renewal for three (3) successive terms on the same terms and conditions, Saybolt would provide 20 inspection agents; 14 to monitor the oil exports and six (6) for spare parts and equipment. The contract has been amended to provide for an increase in the number of oil spare parts inspectors from six (6) to eight (8), bringing the total number of agents to 22.

I. Introduction

2. In paragraph 5 of the audit report (hereafter referred to as the Report), it is stated that the Office of the Iraq Programme (OIP) did not arrange for an exit conference requested by OIOS or respond to audit recommendations forwarded in a draft report, on 7 December 2001, with a deadline of 15 January 2002. It is also stated that "despite the granting of two time extensions, no response to the draft audit report recommendations has been received up until now."

3. As stated in paragraph 1 of the Report, it took from March through August 2001 to conduct the audit, and then it took over three months, until 7 December 2001, to submit the draft report to OIP for comments thereon by 15 January 2002, during a period when OIP was totally involved with the start of the implementation of a new phase (phase XI) of the humanitarian programme and consideration of the new distribution plan being submitted by the Government of Iraq.

4. A quick review of the draft report indicated immediately the necessity for a thorough review because OIP could not agree either with the findings or the assumptions made by the auditors. There were also many errors in the calculations made by the auditors, which required us to check invoices, among others. Furthermore, the OIP staff member who had been responsible with the management of the contract was no longer with OIP. It was also necessary to seek detailed information from Saybolt's headquarters regarding some of the claims made in the draft report, because the auditors, who although had held meetings with the contractor's team leader in the field, had not been in touch with Saybolt's headquarters, or at the least through OIP, to receive authoritative responses to their queries.

5. The above explanations were provided to the Director of the Internal Audit Division and the Chief of the Iraq Programme Unit of OIOS, with a request for extension of the deadline, which was granted. Furthermore, the Director of the Internal Audit Division and the Chief of the Iraq Programme Unit were fully informed of the extreme difficulties being encountered in implementing the programme, which obliged the Executive Director of the Iraq Programme to travel to Iraq on 10 January 2002 with a view to resolving the difficulties with the Government of Iraq, including the refusal to grant over 200 visas requested for UN personnel involved in the implementation of the programme. The Executive Director had to stay longer in Iraq than originally planned, for almost a month. It was taken for granted that OIOS, in addition to being informed by OIP and having two resident auditors in Iraq, was fully aware of the continuing difficulties encountered in programme implementation as the programme has become more politicized than ever. Consequently, the focus of OIP's attention at the time of the submission of the draft report to OIP had been on matters that affected the day-to-day implementation of the programme as well as assisting the Security Council Committee established by resolution 661 (1990) (hereafter referred to as the Committee) in resolving the difficulties encountered within the Committee itself.

6. The Director of the Internal Audit Division and the Chief of the Iraq Unit will recall that it was through the personal intervention of the Executive Director that they were granted Iraqi visas that enabled them undertake their recent visit to Iraq. On the return of the Executive Director to Headquarters, it was agreed with OIOS that OIP would prepare its comments on the draft audit report, first as "a non-paper", for discussions with the Internal Audit Division, on an informal basis. It was agreed that such discussions would take place on the return of the Director and the Chief of the Iraq Unit from their visit to Iraq. OIP waited for their return in order to submit its "non-paper" for discussions. Instead, however, and contrary to the arrangements agreed upon earlier, the Executive Director received an e-mail message, on 5 April 2002, from the Chief of the Iraq Programme Unit, which read as follows: "As previously agreed a response to the above draft report was to be provided by 31 March 2002. This was the second extension given. Since a response has not been received we will be issuing the final report shortly." OIP was not even aware that the Director and the Chief of the Iraq Unit had already returned to Headquarters. At the time when the arrangements were agreed upon, the Director and the Chief of the Iraq Unit were informed of the intention of the Executive Director to invite a representative of Saybolt to be present at the discussions on the "non-paper". Disappointed with the attitude of the Chief of the Iraq Unit and even though the OIP "non-paper" was ready, the Executive Director responded that the Chief of the Iraq Unit could go ahead and publish the report as long as "you are prepared to be fully accountable for your report. If you go ahead and publish it, however, you must also undertake to publish our comments thereon, in toto, either as a separate report or an addendum thereto." Copy of the e-mail exchange of correspondence is attached as an annex to the present Note.

x x x

7. The audit objectives as stated in the Report are, *inter alia*, to assess OIP's management of the contract, determine if the contractor provides the required services in an economical, efficient and effective manner, and review the management of other services being provided by the contractor.

8. A review of the Report, against the stated objectives of the audit, would have to take into full consideration the context in which the contracts were executed and administered. Contracts

are not executed in a vacuum. This particular contract is being carried out within a very rigorous sanctions regime and managed in a highly sensitive political environment. Any realistic assessment of the management of the contract would have to factor in these considerations. Yet, it would appear from the Report that the audit was conducted without taking full cognizance, either of the legal or political context of the contract which in turn influence its management. There are many aspects of the programme as well as its implementation governed by the relevant resolutions and decisions of the Security Council and its Committee, which outside the political context may defy logic; however, as the Secretary-General has stated repeatedly regarding this programme, "we take our marching orders from the Security Council".

9. For example, in the introductory paragraph of the Executive Summary, it is stated that "OIP should have considered utilizing UN staff to perform the oil inspection service as an alternative to hiring a contractor, which would have resulted in substantial savings." Utilizing UN staff to perform the oil inspection services, as recommended by the auditors, would have been inconsistent with the Security Council resolution 986(1995) and the Memorandum of Understanding between the Secretariat of the United Nations and the Government of Iraq (MOU), on the implementation of the Security Council resolution 986(1995) (S/1996/356). Annex II, paragraph 4, of the MOU expressly provides for independent inspection agents to monitor Iraqi oil exports. Consideration of savings was never the ultimate goal of the decision taken by the Security Council; rather, the goal was to ensure full and thorough inspection of oil exports and full compliance with the decisions taken by the Council.

10. Various amendments of the contract were undertaken in response to the requests of the Security Council and its Committee that required urgent action on the part of the Secretariat. Fortunately, the established good working and highly professional relationship of the Government of Iraq with Saybolt presented the United Nations with a considerable advantage, one that cannot be cost evaluated, and which has enabled OIP to field the special missions most expeditiously pursuant to decisions taken by the Council or its Committee, avoiding inordinate delays in the granting of visas to the experts who had to travel to Iraq on short notice. Furthermore, it has been essential to ensure the confidence of not only of the Security Council members but also of the Government of Iraq regarding the impartiality of the work of the experts, as evidenced by the fact that we have had no difficulty in securing visas for one of the leaders from Saybolt to visit Iraq on a regular basis, despite his nationality, which is British.

11. The decision to manage the contract by OIP at Headquarters rather than by UNOHCI was in order not to unduly compromise the latter's mandate. This was a decision taken even before the establishment of OIP in October 1997. The same applies for the management of the contract with Cotecna, and previously with Lloyds. To the extent possible, efforts have been made by OIP to institute appropriate procedures that would ensure that the contractor fully discharges its contractual responsibilities. It is realistic, however, to acknowledge that political actions may affect the manner in which the contractor discharges its responsibilities. For example, it is common knowledge that oil exports are interrupted periodically, such as the present decision taken by the Government of Iraq to suspend all oil exports for 30 days. Furthermore, although the Government has refused to allow any additional contractor's staff to be stationed in Iraq on a permanent basis, Saybolt has, with OIP's consent, occasionally deployed more staff on a short-term basis to cope with peak periods of work. It should be noted, however, that irrespective of the number of staff deployed by the contractor, payment is effected only for the number provided for in the contract.

12. The contractor also provides expert advice to OIP in its day-to-day-operations as well as to the Committee, including regular briefings on the oil industry of Iraq as well as on oil spare parts and equipment provided under the programme. With regard to the status of the contractor's staff posted in Iraq, it is recommended to the auditors that they review the relevant provisions of the MOU, in particular Section VIII, concerning Privileges and Immunities. A fuller understanding of the range of services provided by the contractor would have enabled an appreciation of the background to the contract, the contract itself, and its management.

13. Although the auditors undertook site visits to some of the locations where the independent inspection agents are located, they did not, most unfortunately, visit Mina al-Bakr to witness first hand the very difficult and most dismal conditions under which the independent inspection agents operate, literally closeted on the oil platform which may collapse at any time. In addition, there was no consultation between the auditors and OIP officials, nor with Saybolt headquarters that would have helped clarify for the auditors some of the contentious issues. Although the auditors held discussions with the contractor's team-leader in Iraq, they should have addressed their questions to Saybolt headquarters, or at least through OIP, in order to receive a more authoritative responses.

14. Comments on specific audit findings and recommendations are proffered hereunder:

A: Monitoring of invoice payments and financial matters

Procedures have not been implemented to monitor invoice payments:

15. **Paragraph 9(i)** states that "a review of 19 monthly invoices and supporting documents found "deficiencies". Among the deficiencies stated is ambiguity of the attendance record which reflected "from arrival to departure Amman". In the view of the auditors, payments should only be made for manning the locations in Iraq and Turkey.

16. Contract number PTD/127/0065-96 (the initial contract) determined the number of inspectors required at particular locations in Iraq and Turkey, and Article 7.1 provides for full payment for complete and satisfactory performance by the contractor of his obligations under the contract. In that regard, it could be argued that once the requirement of satisfactory performance is met, the "deficiency" in the *attendance record* becomes a non-issue. Nonetheless, since December 2000 the *attendance record* has shown "Personnel Attendance on Location, from arrival to departure".

17. The Report also illustrates that the auditors did not have a full understanding of the contract and the method used in the preparation of invoices by Saybolt. This misunderstanding led to a significant error in 'finding' that Saybolt overcharged some \$370,000 for services provided during the period 29 May 1999 to 28 June 2001. The auditors have confused the billing mechanism, seemingly thinking that Saybolt's billing was based on contracted staff levels and not on staff on site. The auditors have also confused the contracted number of inspectors for oil spare parts and equipment. There are eight and not six inspectors, as stated in paragraph 8 of the Report.

18. There is a historical precedent in the preparation of invoices in line with the commencement date of the current contract. The invoice always covers the period between the 29th day of the previous month until the 28th day of the month the invoice is prepared. Thus, the invoice prepared at the end of June covers the last few days of May until the 28th of June

inclusive. Reference is made in this regard to Amendment No. 8 to contract PTD/CON/127/0065/9, which covered the period 29 May 1999 through 28 November 1999, after which this invoicing scheme was implemented. A review of all invoices found only one incorrect invoice issued for the month of June 1999. This irregularity does not appear in any of the other invoices. No over billing occurred as a result of this split-month billing, except for the July 1999 bill that included "31 June 1999". This overcharge (17 Man days) will be deducted from a future payment. That the irregularity was not queried by OIP was because OIP understood very well the billing mechanism.

19. The lump sum payment method provided for in Contract PTD/127/0065-96 (the initial contract) was discontinued with effect from 28 May 1999 in the successor contract. The change was a consequence of Amendment 8 of the original contract.

Overpayment of monthly invoices needs to be recovered

20. **Paragraph 10** states that the contractor had overcharged by approximately \$370,000, on short and excess stationing of staff. Except for the 1999 invoice where Saybolt billed for 31 June 1999, there did not appear to be any evidence of over billing. The invoices were in line with the attendance records. It would seem that the auditors have only indicated the first 28 days of the month shown on the attendance record, and ignored the 29th, 30th and 31st day of the previous month, in determining the days of attendance. The other billing errors found were for December 2001, where Saybolt billed for 421 days for Oil Inspectors against 422 shown on the attendance sheet, so undercharging by one day, and June 1999, where a wrong code was used on the attendance sheet, although this did not have a financial consequence.

21. Regarding the short stationing of staff, as the invoices (since 29 May 1999) were based on staff as per the attendance sheet, no adjustment was required to the invoice for contracted staff that were not on duty, as the invoice did not include any charge for an absent Saybolt staff member. As noted above, irrespective of the maximum number of oil spare parts inspectors allowed into Iraq, during the initial stages of that programme monitoring oil spare parts and equipment provided under the programme, the contractor only deployed number of staff sufficient to effectively carry out the requirements of the Committee, as there was, in the initial period, an obvious time delay in ordering and the actual arrival of the oil spare parts and equipment. It would, thus, appear that the auditors did not differentiate between Saybolt's responsibilities.

Communication charges by the Contractor have been excessive

22. **Paragraphs 11 and 12** state that the tariff structure of the contract include communication expenses which is about 21 per cent of the total contract amount and that the Contract did not provide for any requirement to justify the expenses incurred through the use of a satellite communication system (Satcoms). The Report also states that the "UN did not consider alternative options such as using the UN telecommunication system, which would have reduced the communication expenses significantly, apart from being transparent in terms of identification of all calls including personal ones..."

23. The auditors did not seem to take into consideration the geography of Iraq, the location of the sites where the independent inspection agents are stationed, the logistics and difficulties, particularly political, which would have been involved in extending the UN telecommunication system to the various locations. It should be borne in mind that the United Nations has been

encountering considerable difficulties with the Government of Iraq in even importing replacement and or spare parts for existing UN communication establishment in Iraq.

24. Also, it must be borne in mind that it is essential that the independent inspection agents transmit their reports most expeditiously from the location where they are based, using communication not limited to the various Satcom units alone. Furthermore, there is daily on-line time from Saybolt's headquarters to the various locations in the field, to transmit data such as the authorization documentation for crude oil loadings, as well as, communication with UN Headquarters, as appropriate. Finally, it should be noted that "on-line" costs was renegotiated in the current contract, PD/COI 14/00, resulting in substantial savings on communication costs.

OIP needs to recover personal phone calls made by the Contractor's staff

25. **Paragraph 14** states that Saybolt's "internal policy is to allow each of its staff members free private telephone calls totaling up to 45 minutes per month. In Turkey, it was ascertained that staff members were not charged at all for personal calls, as these were not substantial in the Contractor's view. Since the total communications cost is included in the man-day cost structure, private telephone calls of the Contractor staff members are being charged to OIP."

26. The auditors seem to have confused the cost structure with the agreed billing procedure. As the contract is all-inclusive daily fee, the only mechanism for charging would be attendance on site of the contracted personnel and satisfactory performance of their duties.

27. The contract was awarded to Saybolt based on competitive tender and there is no evidence that alleged communication costs for private calls are charged to OIP. It must also be mentioned that the State Oil Marketing Organization (SOMO) has relied for quite some time upon Saybolt's communication systems, particularly after the military action in 1998. All costs involved amounting to USD 6,000 per month were absorbed by the contractor (Saybolt).

28. However, the points raised in the Report regarding the cost structure could be utilized in the negotiations for the next contract.

Accommodation and local transportation charges included in man-day billing rate have been excessive

29. **Paragraphs 16 and 17** state, *inter alia*, that at Zakho and Mina-al-Bakr, the Government of Iraq had provided accommodation for the Contractor's staff, and at Zakho, SOMO had also provided two cars for local transportation.

30. With regard to questions related to costs for accommodation, transportation, communications, etc., in Iraq, it is a well-known fact that these types of expenses to be incurred in Iraq would have to be compensated, but under the restrictions of sanctions, no payments could be made within Iraq in any other currency but Iraqi dinars. This has led to special arrangements by the contractors, not just Saybolt, to ensure that these services, etc., are provided, as required.

Transport costs provided for in the Contract have been charged

31. **Paragraph 18** states that “notwithstanding specific provisions in the Contract to the contrary, amendment number three provided for computer equipment for two spare parts inspectors at a cost of \$17,800. Furthermore, as per the proposal of the Contractor, dated 19 September 2000, the cost of vehicles for spare parts inspectors was also authorized at \$39,000. In this regard, we note that the man-day rate provides for transportation costs of 2.85 per cent. In our opinion, adequate provision was made in the Contract for transportation and no justification was given for amending the Contract to provide additional transport. This arrangement was not transparent and appeared to double charge the UN for these costs.”

32. To facilitate the execution of the contract, it was decided that Saybolt could purchase three vehicles and operate them independently and the vehicles would remain the property of the United Nations. Because of the urgency of the need, it was further decided to purchase vehicles that were immediately available, that happened to have different colors and prices.

Non-expendable equipment purchased by the Contractor had not been adequately accounted for

33. **Paragraph 20** states that “the UN had authorized the Contractor to purchase equipment including vehicles, and communication equipment like satcoms, computers and software. We found that the equipment paid for by the UN did not have any UN asset number affixed and had never been inspected by the UN. Furthermore, the equipment was not entered into OIP’s inventory system, and there had been no periodic checks on these assets as required by UN financial rules.”

34. The contract is all-inclusive, that is to say, inclusive of the equipment purchased by the contractor. In this regard, the communication equipment, computers and software are not UN property, and therefore there is no corresponding requirement for an inventory.

Charges for additional services provided by the Contractor have been excessive and inadequately monitored

35. **Paragraphs 21 to 25** state, *inter alia*, that OIP accepted cost proposals from the contractor for additional services “without any evidence of price negotiations or tests of reasonableness. Moreover, payment for these services had been made without documentation to support the invoicing such as original bills for purchases, tickets, vouchers, etc.”

36. The auditors do not seem to have understood clearly the nature of the work of OIP and the very sensitive and often most urgent requests by the Security Council and its Committee. The proposals referred to by the auditors relate to specific survey missions that were undertaken at the specific request of the Security Council within a very tight timeframe. The proposals by the contractors are “all-in”, i.e., including all relevant personnel for technical activities and analysis, as well as for ancillary services, such as report writing, presentations to the Security Council Committee, etc. In addition to the demands by the Security Council, the Government of Iraq would also have had to agree to the presence of any contractor, and the Government’s experience with Saybolt presented the United Nations with a considerable advantage - one that cannot be cost evaluated - and rendered the missions much more expeditious and effective.

37. It is also an erroneous assumption that OIP does not maintain comparative information to determine the “reasonableness” of proposals. OIP has always kept such information and has maintained on-going contact with professional societies and industrial organizations, and has

thus been able to discuss quickly with experts whether technical and financial proposals were reasonable.

38. Regarding the comments on the round-trip from Amman-Baghdad-Amman, it is conceded that the charges were overstated. Consequently, OIP is arranging a deduction of the overcharge, as appropriate.

39. The auditors do not seem to have taken into consideration the question of the time factor established by the Council and its Committee, which had to be taken into consideration in fielding missions. Fortunately, Saybolt had and was able to provide experts immediately from their rosters who were specialized in the areas necessary to undertake such missions, as well as having great technical familiarity with both the Iraqi oil industry as well as the oil industry in general in the region. Regarding the comments specifically on paragraphs 24 and 25, on "the reasonableness" of the charges, it is essential to keep in mind that the contract was based on an "all-in" cost proposal. Furthermore, the contractor's proposals were fully considered by the Oil Overseers.

The Contractor had not conducted "audit visits" as provided for in the Contract

40. Paragraph 26 states that although the contractor's proposal dated June 1996, provided for a coordinator from Rotterdam to "audit" their operation in Iraq every six weeks, no audit had been conducted. On the assumption that the costs of the visits would have been included in the overall price proposed by the Contractor, the auditors consequently calculated 36 such missed visits.

41. The assumption is incorrect, as the technical head of the Iraq team for Saybolt regularly undertakes missions to Iraq and the cost of these visits is included in the overall cost of the contract. In addition, regular "audit" visits are undertaken by OIP experts, particularly those involved in spare parts and equipment for the oil sector, as well customs experts and the Oil Overseers. It should also be pointed out that it is more effective and efficient to have an overall team leader positioned within Iraq that has total responsibility for "auditing" functions on an on-going basis of review and action, than only periodic "audit" visits, which are, after all, *post facto*.

Services provided by UNOHCI have not been adequately charged to the Contractor

42. Paragraphs 27 and 28 have been duly noted. As stated in paragraph 12 above, it may be useful for the auditors to review Section VIII of the MOU, concerning Privileges and Immunities.

B: Monitoring Contractor's performance

OIP officials charged with monitoring the Contract had not made inspection visits to Iraq

43. Regarding the comments on paragraphs 29 and 30, it should be noted that the contract is being executed in a highly sensitive political environment. As has been already stated, in order not to compromise UNOHCI's mandate, it was decided to administer the contract from Headquarters. OIP maintains oversight of the activities of Saybolt on a daily basis through reporting as well as daily consultations with Saybolt, the Oil Overseers, as well as the OIP group of experts on oil spare parts.

D: Contract Issues

Need to separate the cost of Contractor's equipment from the man-day fee structure

44. **In paragraphs 31 to 37**, and the auditors' corresponding recommendations, the Report discusses the cost of equipment purchased under the contract with Saybolt. While the comments are too vague to constitute a valid finding, it is clear that the auditors did not take into full consideration the ongoing maintenance, repair and replacement costs that are factored into the contract as well, when they speak of onetime costs for equipment and recommend reimbursement by Saybolt. Furthermore, had the auditors been in touch with Saybolt's headquarters, they could have received the information regarding the cost of "some of the equipment", as the auditors have put it.

Scrutiny of CVs of Contract personnel have been ineffective

45. It would seem that the auditors did not fully understand the background of the issue of early pensioners. It was originally foreseen that the contractor would identify overseers. That idea was subsequently cast aside. In the selection of staff assigned to monitor the crude oil exports from Iraq, one clearly needs experienced and motivated individuals capable of working efficiently in the most arduous conditions in Iraq.

46. It is also incorrect to state that CVs of contractor's personnel are not reviewed. Whenever Saybolt sent a recommendation, it was reviewed by the appropriate staff at OIP and then forwarded to the Oil Overseers in OIP, for their comments. OIP has at times raised a number of questions with regard to candidates proposed by Saybolt, for various reasons, including experience, language skills, and geographical distribution. This was all discussed during the daily contacts between Saybolt and OIP. Candidates were withdrawn by Saybolt following these discussions, and therefore there was no need for "rejection" by OIP.

47. In the memorandum, dated 15 April 2002, addressed to the Executive Director of the Iraq Programme, transmitting the Report, the Director of the Internal Audit Division, OIOS, has stated, *inter alia*, that OIOS considered recommendations 3, 4, 6, 8, 9, 16, 17 and 21, contained in the report "as being of critical importance". In light of the introductory remarks above, as well as the comments on specific paragraphs, it will be necessary to review each of the recommendations as stated hereunder:

Recommendation 3: Establish a contract management unit in Iraq whose functions should include reviewing invoices' supporting documentation, verifying Contractor's attendance records, monitoring additional requests for equipment and services by the Contractor and providing input for evaluation of the services provided (AF01/30/6/003).

48. This recommendation fails to take into consideration the fact that this would require additional resources and staffing, which are extraneous to UNOHCI's mandate and would not necessarily be agreed to by the Government of Iraq. Furthermore, it should be borne in mind that UNOHCI is an integral part of OIP. We believe that the decision to manage the contract from Headquarters level was the right decision taken. We have the expertise within OIP at the

Headquarters, including the Oil Overseers and the group of oil spare parts experts with whom Saybolt has to work very closely, almost on a day-to-day basis.

Recommendation 4: OIP management should recover the overpayment of \$370,000 as indicated in Annex I, from the Contractor in subsequent billings (AF01/30/6/004)

49. This recommendation should be further reviewed by OIOS. The \$370,000 seems to be significantly overstated. Ironically, Saybolt's review of its invoices revealed undercharging of approximately \$19,000 that might cancel any overcharging.

Recommendation 6: OIP management should in future contracts with the Contractor (or any other contractor) separate the communication expenses from the man-day tariff structure and reimburse these on presentation of detailed documentation (e.g. invoices from service providers) (AF01/30/6/006)

50. The recommendation is noted and will be taken into account for the negotiation of future contract proposals.

Recommendation 8: OIP management should take steps to stop payment of personal telephone calls of the Contractor staff and recover the amounts overpaid which is estimated at \$109,000 for the first nine phases of the programme (AF01/30/6/008).

51. The contract is an all-inclusive, and there is no evidence that the contractor has separately charged OIP for private calls. Further, it would be contrary to the terms of the contract to demand such reimbursement.

Recommendation 9: OIP management should recover overpayments for accommodation and transportation of approximately \$471,000 from the Contractor (AF01/30/6/009)

52. The contract is all-inclusive, therefore under the terms of the contract there is no reimbursement due.

Recommendation 16: Implement procedures for procuring urgently required services, which should include: obtaining quotations from other suppliers; checking the reasonableness of quotations based on actual costs; and negotiating costs with the selected supplier (AF01/30/6/016).

53. As stated above, OIP maintains constant contact with professional societies and industrial organizations and is, therefore, current on the costs of services. However, the recommendation is noted.

Recommendation 17: OIP management should obtain details of "audit visits" undertaken by the Contractor and if no such visits have taken place, recover an estimated amount of \$270,000 for 36 such required visits up to phase nine (AF01/30/6/017).

54. It is more effective and efficient to have an overall team leader positioned within Iraq that have total responsibility for "auditing" functions on an on-going basis of review and action, rather than only periodic "audit" visits, which are after all *post facto*. In this regard, OIP does not consider that any recovery is due.

Recommendation 21: OIP management should establish an appropriate approval process for candidates proposed by the contractor in accordance with the contract (AF01/30/6/021).

55. There are consultations between OIP and the contractor in the selection of candidates. However, consideration will be given to establish a formal procedure for conveying approval of candidates proposed by the contractor.

Annex

To: Dagfinn Knutsen/NY/UNO@UNHQ
cc: steme@un.org@UNHQ, Dileep Nair/NY/UNO@UNHQ, Anna Halasan/NY/UNO@UNHQ, Nnenna Uchegbu/OIP@OIP, Maurice Critchley/OIP@OIP, sevan@un.org

Subject: Re: Oil inspection contract audit

Mr. Knutsen,

I am not really impressed with your threat to publish your report which took you from March to August to prepare a draft. I had asked for sufficient time to prepare our comments thereon because first, you had given us a very short period to respond to a draft which is full of errors and assumptions, a draft which was prepared without taking into full account, let alone an understanding, of the relevant provisions of the Security Council resolutions concerning the oil for food programme. Nor did you discuss the matter with Saybolt itself at its headquarters level to clarify matters on which you have reached a conclusion wrongly.

Accordingly, apart from commenting on your draft recommendations and/or observations, we had to go thoroughly through your draft report in a way to proof read it for you. It was agreed that I would submit to OIOS a draft for our discussions first before finalizing it and send it to OIOS formally. I was waiting for your return from Iraq in order to arrange for Mr. Peter Boks of Saybolt to be present at our discussions. I now see from your e-mail threatening to publish the report unless you receive my response shortly. As I have stated above, I am not impressed with such threats. **I must state in no uncertain terms that if indeed you mean it, then you go ahead and publish it, as long as you are prepared to be fully accountable for your report. If you go ahead and publish it, however, you must also undertake to publish our comments thereon, in toto, either as a separate report or as an addendum thereto.**

I should appreciate to receive a response as to how you wish to proceed in order for this Office to prepare its response either in the format of a separate document or as a draft non-paper as we had agreed prior to your departure for Iraq.

Sincerely yours,

Benon V. Sevan

To: Benon Sevan/OIP@OIP
cc: steme@un.org
Dileep Nair/NY/UNO@UNHQ
Anna Halasan/NY/UNO@UNHQ

Subject: Oil inspection contract audit

Mr. Sevan,

As previously agreed a response to the above draft audit report was to be provided by 31 March 2002. This was the second extension given. Since a response has not been received we will be issuing the final report shortly.

Best regards,
Dag

Peter Boks
04/05/2002 01:41 PM

To: "Maurice Critchley" <critchley@un.org>
cc:

Subject: Auditors report 

Dear Maurice,

Unfortunately I have not been able to pay you a visit whilst I was in New York during the last few day's.

I understood however from Graham that you met with him and indicated that our reply to the auditors with respect to our tariff was not entirely correct. As you rightly mentioned the difference is USD 10.- per man per day instead of the USD 20.- we used in our calculations.

Perhaps we can discuss how to proceed on this, also as we have not taken into consideration the undisputed invoices.

If you can let me know your phone number, I will call you coming Monday.

Kindest regards,

Peter Boks

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<http://www.saybolt.com/complaint.nsf/>

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January 2000 31
 February 2000 28
 March 2000 31
 April 1999 31
 May 1999 30
 June 1999 31

102 x 10 x 14 = 2540.

ANNEX I

ANALYSIS OF SAYBOLT INVOICES

Invoice month	1	2	3	4	5	6	7	8
	Amount to be recovered due to overcharging (\$)	Amount of recovery due to not maintaining adequate staff (\$)	Details of mistakes	Amount of recovery due to maintaining excess staff (\$)	Details	Amount of recovery due to maintaining excess staff (\$)	Details of excess staff	Total amount to be recovered [(2)+(4)+(6)] (\$)
June 01						14,488	1 Sr. Spare Pts. Insp. in excess from 9 th to 14 th , 24 th to 28 th and 31 st and two in excess on 29 th and 30 th in view of the increasing workload. An amendment was signed for allowing two additional Spare Pts. Inspectors. Whenever the COI provides visa, up to 8 Spare Pts. Insp. are deployed.	14,488
May 01	43,424	7,189	Charged 18 mandays extra for Sr. Spare Pts. Insp. as charged for 202 mandays instead of 184 per attendance sheet. Reviewed the attendance sheet and found it to be correct.	1 Sr. Spare Pts. Insp. kept short for 10 days from 3 rd to 12 th . Reviewed the attendance sheet and found it to be correct.	1 Sr. Spare Pts. Insp. kept short for 10 days from 3 rd to 12 th . Reviewed the attendance sheet and found it to be correct.	40,652	14 mandays total made up of 2 extra Sr. Spare Pts. Insp. from 13 th to 16, 1 extra on 1 st , 2 nd , 17 th , 18 th , 29 th and 30 th . In view of the increasing workload, an amendment was signed for allowing two additional Spare Pts. Inspectors.	24,156
March 01		8,426		1 Sr. Spare Pts. Insp. maintained short for 7 days from 11 th to 17 th . This has been caused by a Medical examination. Please note that the 7 day's leave not been charged.	1 Sr. Spare Pts. Insp. maintained short for 7 days from 11 th to 17 th . This has been caused by a Medical examination. Please note that the 7 day's leave not been charged.	44,514	23 mandays in excess made up of 1 Sr. Spare Pts. Inspector maintained in excess from 4 th to 9 th , 24 th to 28 th and 2 in excess from 18 th to 23 rd in view of the increasing workload. An amendment was signed for allowing two additional Spare Pts. Inspectors.	21,540
Feb. 01		690	1 Oil Insp. short at Ceylan on 16 th .	1 Oil Insp. extra at Ceylan on 20 th . 19 mandays extra for Sr. Spare Pts. Insp. as 1 extra from 4 th to 14 th and 2 extra from 18 th to 21 st in view of the increasing workload.	1 Oil Insp. extra at Ceylan on 20 th . 19 mandays extra for Sr. Spare Pts. Insp. as 1 extra from 4 th to 14 th and 2 extra from 18 th to 21 st in view of the increasing workload.	44,344		45,040

ANNEX I

ANALYSIS OF SAYBOLT INVOICES

Jan 01	4436	2 Mandays short as 1 Sr. Spare Parts Insp. maintained short on 5 th and 6 th . This shortage, due to family reason could not be prevented. No charges.	5744	allowing two additional Spare Pts. Inspectors. 8 mandays extra for Sr. Spare Pts Insp. as 2 maintained extra from 21 st to 24 th Jan. In view of the increasing workload, an amendment was stamped for allowing two additional Spare Pts. Inspectors.	7480
Dec. 00	45284	19 mandays short at Ceyhan as 1 Insp. maintained less from 8 th to 14 th , 16 th to 20 th and 22 nd to 28 th . Reviewed the attendance sheet and only noticed one Extra manday at Mina, Al Baki.	2135	1 Sr. Spare Pts Insp. extra on 29 th and 30 th . 1 extra oil Insp. at Mina on 10 th . Above is correct and amended accordingly.	29394 2135
Oct. 00	45921	7 mandays short at Ceyhan as 1 Insp. maintained less from 22 nd to 28 th . Reviewed the attendance sheet and found it to be correct.			9780
Aug. 00	45778	22 mandays short at Zakho as 1 Insp. maintained less from 1 st to 19 th and 29 th to 31 st . Reviewed the attendance sheet and found it to be correct.			30786
May 00	655	1 manday for oil Insp. charged extra as invoiced for 420 instead of 419 per attendance sheet. Reviewed the attendance	655	On the other hand, we noticed that 1 per man per day for of USD 655 has been applied, which should have been USD 675.	4246 8420 - / - 1200

ANNEX I

ANALYSIS OF SAYBOLT INVOICES

37600 = 1966
175

Date	Description	Rate	Quantity	Amount	Remarks	Handwritten Notes
Apr. 00	25 mandays charged extra for oil inspector as invoiced for 434 instead of 409 per attendance sheet. Reviewed the attendance sheet and found it to be correct.	46.375	25	1159.375	On the other hand, we noticed that a per man per day fee of USD 655 has been applied, which should have been USD 675.	575 1885 -17240 1012-
Dec. 99	1 spare Pt. Insp. short on 1 st Although the contract allowed for 6 inspectors, the workload at that time required for staff deployment.	25.540	1	25.540	1 Spare Pt. Insp. excess on 10 th , 3 mandays extra for oil Insp. As 1 Oil Insp. excess on 18 th , 19 th and 20 th at Ceylan. Given the local conditions, it might happen that staff shortages, the sign, due to weather and/or workload. We understand however the point made.	575 1885 -17240 1012-
Nov. 99	31 mandays charged extra for Sr. Spare Pts. Inspector as invoiced for 93 mandays instead of 62 per attendance sheet. We reviewed the attendance sheet and found it to be correct for Sr. Spare Pts. Insp. 23	31.110	31	964.410	On the other hand, we noticed that a per man per day fee of USD 655 has been applied, which should have been USD 675.	5240 4655 11310
Oct. 99	2 mandays short for spare	46.375	2	92.750	4 mandays in excess for spare Part Insp as 1 maintained extra from 7 th to 10 th . 2 Oil Inspectors extra at Mina from 14 th to 17 th . 1 Oil Inspector extra at Zakho from 24 th to 26 th . Given the local conditions, it might happen that staff shortages, the sign, due to weather and/or workload. We understand however the point made.	8 x 655 = 5240
					15 mandays charged extra for oil	8 x 655 = 5240
						31 x 14 x 10 = 4340
						1720 900

7 x 65r = 186r
 3 x 65r = 196r
 2 x 65r = 131r
 31 x 10 x 17 = 7/ 4340
 -/- 106r

900

ANNEX I

ANALYSIS OF SAYBOLT INVOICES

31 st 58 mandays short for spare parts inspectors as 2 maintained short from 1 st to 5 th , 10 th to 31 st and 1 short 6 th to 9 th Although the contract allowed for 8 inspectors, the workload at that time required for staff deployed	2260	370484
10 th & 11 th (one each) 2 mandays extra at Coxham on 18 th and 19 th (One each) Given the local conditions, it might happen that staff involves the site, due to weather and/or workload. We understand however the point made. On the other hand, we noticed that a per man per day fee of USD 655. - has been applied, which should have been USD 675. -	2260	370484
		-/- 12445
		184246
Total		84014

1283

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OFFICE OF THE IRAQ PROGRAMME – BUREAU CHARGE DU PROGRAMME IRAQ

COMMENTS ON
THE AUDIT OF THE MANAGEMENT OF THE OIL INSPECTION SERVICES
CONTRACT

An audit of the management of the oil inspection contract was conducted by OIOS from March through August 2001. A draft report (AF2001/30/6), dated 7 December 2001, with findings and recommendations, as well as, a request for time schedule for the implementation of accepted recommendation, was forwarded to Mr. Sevan, under cover of memorandum reference number AUD-7-1:31 (1753/01), of same date.

Following the Security Council resolution 986 (1995) and the MOU, Saybolt Eastern Hemisphere BV, (Saybolt) was awarded Contract PTD/127/0065-96, in August 1996, to provide the services of 14 individuals with “particular experience and qualifications to assist in monitoring the export of petroleum and petroleum products from Iraq”. The contract was for an initial term of six (six) months, with an option of renewal for up to three (3) successive periods of six (6) months, on the same terms and conditions. Contract PTD/127/0065-96 was subsequently amended several times to provided for additional inspectors for oil spare parts, and groups of oil experts that undertook special assignment at the behest of the Security Council. Contract number PD/CO114/00 executed in June 2000 succeeded contract PTD/127/0065-96. Under the new contract, which is for one year, with an option of renewal for three (3) successive terms on the same terms and conditions, Saybolt would provide 20 inspection agents; 14 to monitor the oil exports and 6 for spare parts and equipment. The contract has been amended to provide for an increase in the number of oil spare parts inspectors from 6 to 8, bringing the total number of agents to 22.

The audit objectives as stated in the draft report are, *inter alia*, to assess OIP’s management of the contract, determine if the contractor provides the required services in an economical, efficient and effective manner, and review the management of other services being provided by the contractor. A review of the draft audit report, against the stated objectives of the audit, would have to take into consideration the context in which the contracts were executed and administered.

Contracts are not executed in a vacuum. As indicated above, this particular contract is being carried out within a sanctions regime and managed in a politically sensitive environment. Any realistic assessment of the management of the contract would have to factor in these considerations. Yet, it would appear from the draft report that the audit was conducted without taking cognizance, either of the legal or political context of the contract which in turn influence its management. For example, the introductory paragraph of the Executive Summary state that “OIP should have considered utilizing UN staff to perform the oil inspection service as an alternative to hiring a contractor, which would have resulted in substantial savings.” An action by OIP in this regard would not have been consistent with the Security Council resolution