

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

BUNKER FUEL OPERATIONS

Report No. 95-262

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Acronyms

DFSC
NPO
MSC

Defense Fuel Supply Center
Navy Petroleum Office
Military Sealift Command

Report No. 95-262

June 29, 1995

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit of Bunker Fuel Operations (Project No. 4LC-0043)

Introduction

We are providing this report for your information and use. Bunker fuel is used to propel seagoing vessels, and is stored in shipboard compartments, called bunkers. To obtain bunker fuel at discounted commercial prices and to ensure the availability of quality fuels, the Defense Fuel Supply Center (DFSC), a field level Component of the Defense Logistics Agency, established the bunker fuel program.

Under the bunker fuel program, bunker fuel contracts are negotiated with commercial vendors at seaports in the United States and throughout the world. To establish a bunker fuel contract, the Military Sealift Command (MSC) is required to submit fuel requirements to the Navy Petroleum Office (NPO). The NPO validates the MSC fuel requirements, and prepares and submits military interdepartmental purchase requests, which are documents used to transmit all petroleum product and service requirements along with appropriate funding authority to DFSC. The DFSC uses those requirements to support continuation or establishment of bunker fuel contracts. The bunker fuel program allows for purchases from local fuel vendors in those seaports where, for certain valid reasons, no bunker fuel contracts have been established. During FY 1993, MSC made 589 purchases of bunker fuel, costing \$51 million, from existing DFSC bunker fuel contracts and local commercial sources. Of the 589 purchases, MSC made 274 purchases from 18 existing DFSC bunker fuel contracts at a cost of \$23 million. The remaining 315 purchases, costing \$28 million, were made from local fuel vendors.

Audit Results

The MSC organizations were collecting fuel consumption data and submitting fuel requirements data to DFSC to support the continuation and establishment of

bunker fuel contracts as required by DoD Manual 4140.25, "Management of Bulk Petroleum Products, Storage and Distribution Facilities," July 8, 1988. Existing bunker fuel contracts were effectively used by DoD-controlled vessels. Additionally, local procurements were adequately controlled. The management controls we reviewed were effective in that no material management control weakness was identified.

Audit Objectives

The audit objectives were to determine whether MSC collected fuel consumption data and submitted bunker fuel requirements data to DFSC to support the continuation and establishment of bunker fuel contracts, and to determine whether existing bunker fuel contracts were being used by DoD-controlled vessels. We also evaluated implementation of the management control program established by MSC as it related to the other audit objectives.

At the end of the audit survey, we decided that no additional audit work was necessary on the announced audit objectives concerning whether non-DoD agencies that obtain bunker fuel under DoD contracts reimburse DoD at the full contract cost and whether DoD vessels can make greater use of military facilities to refuel rather than using bunker fuel contracts. Non-DoD agencies did not reimburse DoD, but paid for all bunker fuel purchases directly. Further, greater use of military facilities to refuel was not practical because the majority of bunker fuel being purchased was for MSC commercially chartered vessels.

Scope and Methodology

Review of Records. We met with representatives from Headquarters, MSC; the NPO, and DFSC to obtain policies and procedures for the collection of fuel consumption data, for the submission of fuel requirements data, and for the use of existing bunker fuel contracts. We obtained a list of fuel purchases from MSC personnel for FY 1993 bunker fuel operations. From the list, we identified 589 purchases of bunker fuel that included purchases from existing DFSC bunker fuel contracts as well as local procurements at a total cost of \$51 million. Of the 589 purchases, fuel requirements data for 274, valued at \$23 million, were validated by NPO and submitted to DFSC to support continuation and establishment of bunker fuel contracts. We reviewed the other 315 local purchases of bunker fuel, costing \$28 million. We examined vendor invoices, receiving reports, delivery orders, fuel consumption data documents,

fuel requirements data documents, traffic messages, and records of missions performed by MSC vessels for FY 1993 to evaluate the MSC compliance with DoD Manual 4140.25. Additionally, we reviewed military interdepartmental purchase requests submitted by NPO to DFSC during FYs 1992 and 1993.

Auditing Period, Standards, and Locations. This economy and efficiency audit was made from November 1994 through March 1995, in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly, included such tests of management controls as considered necessary. The audit did not rely on the use of computer-processed data or statistical sampling procedures. Organizations visited or contacted are listed in Enclosure 1.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provide reasonable assurance that programs are operating as intended and to evaluate the adequacy of those controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of management controls related to the collection of fuel consumption data, submission of fuel requirements data, and effective use of existing bunker fuel contracts. Those controls are principally defined in DoD Manual 4140.25. We did not assess management's self-evaluation of those controls.

Adequacy of Management Controls. Management controls applicable to the collection of fuel consumption data, submission of fuel requirements data, and effective use of existing bunker fuel contracts were deemed to be adequate in that we identified no material management control weaknesses.

Prior Audits and Other Reviews

No prior audits have been performed during the last 5 years relating specifically to the collection of bunker fuel consumption data, submission of fuel requirements data, and the use of existing bunker fuel contracts.

Audit Background

Criteria for Submission of Fuel Requirements Data. DoD Manual 4140.25 requires that DoD organizations submit bunker fuel requirements data to DFSC annually. When mission requirements dictate that DoD-controlled vessels* refuel at commercial ports where no DFSC bunker fuel contracts are in place, the commanding officers of those vessels are authorized, subject to approval of MSC, to make one-time, local purchases of fuel from commercial vendors. However, if repetitive fuel purchases are made during the year at a particular location and the total quantity required or purchased annually exceeds 84,000 gallons, fuel requirements data should be submitted to DFSC for use in establishing bunker fuel contracts at that location.

Military Sealift Command. The MSC, including all four of its subordinate major area commands, is a major logistical support element of the U.S. Navy. The MSC is responsible for the operation and administration of vessels owned by the Government and all other vessels chartered to provide ocean transportation (sealift) service for the movement of military personnel, and military cargo such as warfighting material, supplies, petroleum, oil, and lubricants. The MSC compiles, reviews, and adjusts fuel requirements data submitted by its four major area subordinate commands before submitting worldwide totals of bunker fuel requirements to NPO.

Major Area Commands. The four area commands are MSC Atlantic, Bayonne, New Jersey; MSC Pacific, Oakland, California; MSC Far East, Yokohama, Japan; and MSC Europe, London, United Kingdom. When DoD-controlled vessels enter the operational control of an area commander, that commander is responsible for selecting refueling locations. Each area commander is required to determine whether Government-owned fuel or DFSC bunker fuel contract sources are available. If neither of those sources can supply fuel, the area commander can then authorize the vessel operator to purchase bunker fuel locally from commercial vendors. MSC procedures require commanding officers of DoD-controlled vessels to request the area commander to authorize local purchases before the fuel is loaded. Each major area command is also responsible for collecting fuel consumption data, which is used to prepare fuel requirements for the next year. The fuel requirements data documents are submitted to MSC annually and used to justify the continuation

*DoD-controlled vessels are either Government-owned ships operated by contractor personnel or privately owned ships that are chartered by MSC.

of existing bunker fuel contracts or the establishment of new bunker fuel contracts. Fuel requirements data documents specify the locations of deliveries, types of fuels, modes of delivery (pipeline, truck or barge) to be authorized under each contract, and the estimated quantity of needed fuels.

Navy Petroleum Office. The NPO is responsible for the coordination and validation of MSC fuel requirements for bunker fuel contract support. During FY 1993, NPO consolidated MSC and all other Navy requirements and then prepared and submitted military interdepartmental purchase requests to DFSC to support the continuation, or establishment, of bunker fuel contracts. The military interdepartmental purchase requests identify the types and quantities of products needed, and the known locations where each product is needed.

Defense Fuel Supply Center. Part of the DFSC mission is to solicit offers on all bunker fuel requirements, to evaluate offers, and to award bunker fuel contracts. The average time needed to award a bunker fuel contract is approximately 6 months.

Discussion

Continuation and Establishment of Bunker Fuel Contracts. The MSC organizations were collecting fuel consumption data and submitting fuel requirements data to DFSC to support the continuation and establishment of bunker fuel contracts. During FY 1993, fuel requirements data provided to DFSC by MSC organizations were used to extend the terms of 14 existing bunker fuel contracts and to establish 4 new bunker fuel contracts.

Use of Bunker Fuel Contracts. Bunker fuel contracts awarded by DFSC were effectively used by MSC area commanders and vessel operators. During FY 1993, a total of 18 bunker fuel contracts were used for 274 purchases of fuel, costing \$23 million.

Use of Locally Purchased Fuel for Recurring and Nonrecurring Requirements. The MSC area commanders and vessel operators were appropriately authorized to use local commercial vendors for bunker fuel, in lieu of bunker fuel contracts, for recurring and nonrecurring requirements. The recurring requirements included tankers that needed special fuel and purchases

of fuel that did not meet the minimum volume threshold to establish bunker fuel contracts. Purchases for nonrecurring requirements included one-time purchases, special mission needs, and purchases for extenuating circumstances beyond the control of MSC. During FY 1993, a total of 315 purchases of bunker fuel were made from commercial sources at a cost of \$28 million.

Tankers Needing Special Fuel. Chartered T-5 tankers that used special fuel not available through DFSC bunker fuel contracts made 64 purchases of bunker fuel, costing \$3 million. Those purchases were authorized by MSC officials under the Commander, Military Sealift Command, Instruction 3121.9, "Standard Operating Manual," May 9, 1988, which states that chartered vessels shall use the bunker grade specified by the charter party (vessel owner), or the next higher available grade if the specified fuel is unavailable. We also verified the unique fuel needs of the chartered T-5 tankers by obtaining documents attesting to the engine manufacturers' fuel specifications and recommendations and comparing them to DFSC bunker fuel contract specifications.

The T-5 tankers' missions required them to directly support contingency operations around the world. Therefore, the refueling locations could not be determined in advance. Additionally, T-5 tankers could not use the available DFSC bunker fuels because the fuels they use must be pure or the engines could be damaged. MSC could be liable for the costs associated with engine repair and subsequent lost revenues if T-5 tanker operators were forced to use DFSC fuels that did not meet the engine manufacturers' specifications and engine damage occurred. Regular fuels available under DFSC bunker fuel contracts, according to MSC officials, had unacceptable levels of ash, sulfur, vanadium, and water that were in excess of the T-5 tankers engine manufacturers' recommended fuel specifications. Commercial sources could provide fuel meeting those specifications, but it is not commonly available and may require special blending. MSC decided that it would adversely affect fuel costs for other ships and it would be cost prohibitive for DFSC to issue special bunker fuel contracts for those tankers. Because of those factors, all chartered T-5 class tankers refuel only with high quality bunker fuel.

Annual Requirements Not Exceeding 84,000 Gallons. Other recurring purchases for bunker fuel did not meet the minimum volume threshold for establishment of a bunker fuel contract. At locations with no DFSC bunker fuel contracts, 51 purchases of bunker fuel, costing \$2 million, were authorized and made because the quantities purchased did not meet DFSC bunker fuel contract award criteria for annual purchases exceeding 84,000 gallons.

One-Time Purchases. A total of 109 fuel purchases, costing \$8 million, were authorized and made at commercial ports where no DFSC bunker fuel contracts existed. Because the ships visited those ports only once during the year, the DFSC bunker fuel contract award criteria for recurring annual purchases were not met.

Special Mission Requirements. Local purchase of bunker fuel was authorized for 57 purchases, costing \$9 million, to support unprogrammed or unplanned missions such as Operation Restore Hope, and various planned Joint Logistics Over the Shore operations. Although Joint Logistics Over the Shore operations were planned, the locations where the MSC vessels would refuel during those operations were not known in advance. To verify the missions accomplished by MSC vessels during FY 1993, we compared the delivery reports (which included the fuel delivery date, the location where the fuel was delivered, and the name of the vessel) with the documents provided by MSC that showed the names of vessels, dates, operations performed, and missions accomplished during FY 1993. Local fuel purchases associated with special mission requirements were valid.

Operation Restore Hope. In support of Operation Restore Hope in Somalia, 19 purchases of bunker fuel, at a cost of \$5 million, were authorized and made. According to MSC personnel, this operation was an unplanned, special mission. As a result, fuel requirements data could not be submitted to NPO to support establishment of bunker fuel contracts.

Joint Logistics Over the Shore Operations. A total of 38 purchases of bunker fuel, at a cost of \$4 million, were used to support various Joint Logistics Over the Shore operations such as Fuertes Caminos 93, Team Spirit 93, Operation Deep Freeze, and other naval exercises. The Joint Logistics Over the Shore operations were planned, but the locations where the vessels needed to refuel were not known before submission of annual fuel requirements data during 1992 (for purchases in 1993). Additionally, DFSC takes more than 6 months from submission of fuel requirements data to award bunker fuel contracts. Therefore, by the time bunker fuel contracts could be awarded, the special planned operations would have been completed and the requirement to refuel at those same locations would not recur.

Extenuating Circumstances Beyond the Control of MSC. Because of extenuating circumstances beyond the control of MSC, 34 purchases of bunker fuel, costing \$6 million, were authorized and made from commercial sources.

For example, when a DFSC bunker fuel contract specifies delivery by pipeline or tanker truck, certain DoD-controlled vessels may be unable to receive the fuel. That situation occurs when vessel operations are restricted to deep water because of the draft of the keel and shallow water at the pier. The only way those vessels could accept bunker fuel with pipeline or truck contract delivery specifications would be to arrange for a prohibitively costly fuel barge. Refueling by barge is a slow process that often results in unacceptable delays and further adds to transportation costs. Additionally, if the requested fuel was unavailable for a variety of other reasons such as product shortages, a local commercial purchase was made. Also, MSC authorized local purchases of bunker fuel when the contractor's operations were shut down because of scheduled maintenance on pumping equipment and barges. Labor strikes at the contractor facility could also force DoD-controlled vessels to purchase commercial fuel.

Management Comments

We provided a draft of this report to you on May 12, 1995. Because the report contains no findings or recommendations, no comments were required, and none were received. Therefore, we are publishing this memorandum report in final form.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. John A. Gannon, Audit Program Director, at (703) 604-9427 (DSN 664-9427), or Mr. J.J. Delino, Acting Audit Project Manager, at (703) 604-9454 (DSN 664-9454). The distribution of this report is listed in Enclosure 2. Audit team members are listed on the inside back cover.



Robert J. Lieberman
Assistant Inspector General
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Enclosures

Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Deputy Under Secretary of Defense for Logistics, Washington, DC

Department of the Navy

Military Sealift Command, Washington, DC
Navy Petroleum Office, Cameron Station, Alexandria, VA

Defense Organizations

Defense Logistics Agency, Cameron Station, Alexandria, VA
Defense Fuel Supply Center, Cameron Station, Alexandria, VA

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