

Audit

Follow-up

As of September 30, 2008



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City Auditor

Fleet Fuel Operations

(Report #0801, Issued October 18, 2007)

Report #0906

January 5, 2009

Summary

This is the second follow-up on the action plan steps originating from the audit of the City's Fleet Fuel Operations (Report #0801) issued on October 18, 2007.

During our original audit, we noted that the accounting for and safeguarding of fuel had greatly improved since a prior audit conducted in 2003. Processes had been developed and implemented to better account for fuel purchased, issued, and in inventory and to better safeguard the City's fuel inventory. We also noted additional areas where improvements were needed and provided recommendations related to daily fuel operations, reconciliation processes, and fuel tax reporting. The audit report included management's action plan consisting of 15 action plan steps to address the recommendations in the audit report.

During the follow-up period April 1, 2008, through September 30, 2008, one new action plan step and six partially completed action plan steps due in the prior period were due to be completed. Of these seven steps, four steps were completed and three steps remain to be completed.

The four steps completed during this period are related to:

- Reconciling the calculated inventory balance to the FuelMaster system inventory balance.

- Implementing a process to test the accuracy of the electronic tank monitoring system.
- Developing and implementing performance measures to assist management in evaluating the efficiency and effectiveness of fuel operations.
- Submitting amended off-road tax returns and receiving a refund of \$23,785 from the Department of Revenue.

Of the three remaining action plan steps, the following two steps have been partially completed:

- Assigning a system administrator independent of the fuel operations supervisor. Recent turnover in technical staff at Fleet has added to the delay. Fleet management has assigned the Fleet Administrative Specialist I to be the system administrator.
- Implementing adequate password management controls within the FuelMaster system.

The remaining step is to implement additional oversight controls over the fuel operations and involves both Fleet and Accounting Services management. Management has indicated that this oversight will be implemented by March 31, 2009.

We appreciate the full cooperation provided during this audit follow-up from Fleet and Accounting Services staff.

Scope, Objectives, and Methodology

We conducted the original audit and this subsequent follow-up audit in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Report #0801

The objectives of the audit were to provide assurances that: 1) fuel was properly safeguarded and accounted for as to fuel purchased, received, dispensed, and in inventory; 2) fuel was bought and sold (internally and externally) at competitive prices; and 3) fuel purchases and operations complied with applicable laws, policies, and contracts.

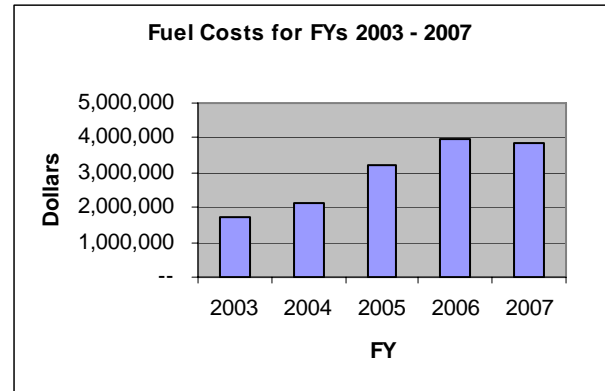
Report #0906

This is our second follow-up on action plan steps identified in audit report #0801. The purpose of this follow-up is to report on the progress and status in completing the action plan steps due for completion as of September 30, 2008. To obtain information we interviewed key Fleet and Accounting Services staff, reviewed relevant documentation, reviewed a monthly reconciliation worksheet, and made observations.

Background

For City Fleet operations, the majority of dollars spent on fuel was purchased for vehicle use through Fleet Management. Figure 1 shows the dollars spent on fuel during fiscal years 2003 - 2007. Fuel costs have continued to rise over the last four years. To minimize fuel costs, the City has been implementing steps to try to decrease fuel usage and increase safeguards over fuel.

Figure 1



Source: Accounting financial reports

During the audit period, Fleet purchased unleaded gasoline and diesel fuel through established contracts with a local wholesale fuel provider. The contract terms allowed for the price of fuel to adjust for the fluctuation of fuel price, agreed-upon freight costs, and applicable Florida fuel taxes.

Fleet manages its fuel operations from the main Fleet operations site on Dupree Street and distributes fuel to vehicles and equipment through 15 fueling sites located at the Fleet main site, the police station, 9 fire stations, 2 park facilities, and 2 power plants. At these fueling sites, a total capacity of 119,550 gallons of fuel is stored in 16 unleaded fuel tanks (75,500 gallon capacity) and 15 diesel fuel tanks (44,050 gallon capacity). The majority of fuel was dispensed from the Fleet main site and the police station.

Fleet fuel operations consist of the following activities:

- Purchasing all fuel to be used by department vehicles and equipment;
- Monitoring the fuel inventory, ensuring that fuel is available in all tanks (with the exception of the tanks at the power plants), and accounting for all fuel purchased, dispensed, and on-hand;
- Delivering fuel to 12 fueling sites that do not receive deliveries direct from the contractor,

to department managed tanks, and to large equipment out in the field (generators, cranes, bulldozers, etc.);

- Monitoring related fuel environmental (in conjunction with Utility Business and Customer Services) and tax laws (in conjunction with Accounting Services) to ensure that the City is in compliance;
- Maintaining the fuel dispensing equipment at each of the 15 fueling sites;
- Tracking and recording fuel usage by vehicle and/or fuel key; and
- Billing departments and external agencies the proper amount for their amount of fuel usage.

Fleet applies a 5% overhead rate to the cost of fuel sold to departments and external agencies to cover the direct and indirect cost to manage fuel operations.

In fall 2004, Fleet implemented a fuel management system, FuelMaster, to track both fuel and oil purchased and dispensed. Along with the implementation of FuelMaster, Fleet began installing Automotive Information Modules II (AIMs) on the newer vehicles. AIMs, along with FuelMaster, allow drivers of the vehicle to pull up to a City fuel pump and begin fueling without any additional actions, such as inputting user id, vehicle id, and vehicle mileage prior to being authorized to pump fuel. In FY 2007, over 75% of the vehicles had the AIM equipment. The use of FuelMaster and AIMs increased the security over fuel and the accuracy of reporting.

Previous Conditions and Current Status

In report #0801, we determined that many improvements had been implemented to better account for and safeguard fuel since a prior audit conducted in 2003 (Audit Report #0303, “Fleet Parts”). In report #0801, we reported on areas related to the reconciliation process where improvements were needed.

The five issues identified during the audit included:

- (1) The monthly reconciliation processes did not include all tanks and deliveries, and a system process was not being performed accurately.
- (2) One person was performing too many key procedures in fuel operations resulting in a lack of segregation of duties.
- (3) Fuel operations procedures were outdated, and the performance measures were not being used to assist in managing fuel operations.
- (4) The City did not file all eligible fuel tax refund returns and the prior returns submitted needed to be amended. Net eligible refunds were estimated to be \$26,666.
- (5) An amendment to the fuel contract was not properly processed.

To address these areas that needed improvement, we provided six recommendations to enhance their operations. Management broke down the recommendations into 15 action plan steps.

Table 1 provides a summary of management’s action plan steps that were due to be completed as of September 30, 2008, and their current status.

Table 1
Action Plan Steps from Report #0801
Due as of September 30, 2008, and Current Status

Action Plan Steps Due As of September 30, 2008	Current Status
To enhance controls related to the fuel reconciliation process	
<ul style="list-style-type: none"> Implement additional oversight controls over the fuel operations. Such oversight controls could include: supervisory approval of fuel purchases (already performed); regular management review of system generated reports of adjustments made to the inventory and of the use of supervisory key to the fuel dispensing unit cabinet; conducting a periodic independent inventory of fuel and reporting results to Fleet and Accounting management; and/or defining a tolerance level (% and gallons) to "red flag" potential problems in fuel inventory. 	<ul style="list-style-type: none"> Not Completed. Accounting Services and Fleet management have requested to amend this completion date from June 30, 2008, to March 31, 2009.
<ul style="list-style-type: none"> Incorporate all 30 tanks into the fuel reconciliation process (rather than limiting it to the seven largest tanks). 	<ul style="list-style-type: none"> ✓ Completed in the prior period.
<ul style="list-style-type: none"> Input all fuel purchases into the FuelMaster system, including fuel delivered to power plants and picked up in the Fleet fuel trucks. 	<ul style="list-style-type: none"> ✓ Completed in the prior period.
<ul style="list-style-type: none"> Utilize the processes within the FuelMaster system to ensure that the calculated inventory balance and the FuelMaster system inventory balances are properly reconciled. 	<ul style="list-style-type: none"> ✓ Completed. Fleet Fuel staff has implemented processes to track all fuel, as well as oil and lubricant, inventories in the FuelMaster. Staff conducts a monthly inventory reconciliation that includes all tanks and compares the calculated balance to the physical ending balances to identify potential issues.
<ul style="list-style-type: none"> Implement a process to test the accuracy of the electronic tank monitoring system. 	<ul style="list-style-type: none"> ✓ Completed. Fleet Fuel staff purchased and installed caps on the tanks that allow staff to open the tank and take a physical measurement of the fuel level. This provides fuel staff the ability to take periodic physical inventory readings to test the accuracy of the electronic inventory system.
<ul style="list-style-type: none"> In the FuelMaster system, input the gallons delivered per the invoice (rather than the gallons delivered per the Veeder-Root system). 	<ul style="list-style-type: none"> ✓ Completed in the prior period.

To improve the safeguards over the City’s Fleet fuel inventories	
<ul style="list-style-type: none"> • Develop and maintain a listing of persons possessing keys to the FuelMaster controller dispensing unit cabinets and actively monitor reports to identify any questionable dispensing of fuel through use of the manual key. 	<p>✓ Completed in the prior period.</p>
<ul style="list-style-type: none"> • Assign a systems administrator for the system different from the fuel operations supervisor. 	<ul style="list-style-type: none"> ◆ Partially Completed. The Fleet Fuel Manager responsible for managing the fuel operations continues to have system administration access privileges. This creates a lack of segregation of duties. Management indicated that the Fuel Manager was assigned these access privileges during a recent transition of staff to be able to maintain operations. The Fleet Superintendent assigned the Fleet Administrative Specialist I to be the system administrator in December 2008. <p><u>Audit Comment:</u> Due to the risks associated with one person having access to fuel and the system data, we recommend that management immediately remove the system administrator access privileges from the Fuel Manager, and assign an independent system administrator or implement adequate compensating controls to mitigate the associated risks.</p>
<ul style="list-style-type: none"> • Assign individual user ids so that there is accountability for actions taken and transactions entered in the FuelMaster system. 	<p>✓ Completed in the prior period.</p>
<ul style="list-style-type: none"> • Implement adequate password management controls within the FuelMaster system. 	<ul style="list-style-type: none"> ◆ Partially Completed. Password controls available in the FuelMaster system were not in place. Management indicated this risk occurred during a recent transition of staff. <p><u>Audit Comment:</u> We recommend that password management controls be implemented within the FuelMaster system to minimize the risk of unauthorized users accessing the FuelMaster system and altering or deleting the fuel data.</p>
To ensure that the City is consistently filing for all eligible fuel tax refunds	
<ul style="list-style-type: none"> • Fleet and Accounting Services work together to develop a process to identify what off-road equipment meets the eligibility for fuel tax refunds and ensure that the correct information is provided to complete all applicable fuel tax returns. 	<p>✓ Completed in the prior period.</p> <p><u>Audit Comment:</u> Due to recent turnover of technical staff, Fleet management will need to make sure the off-road vehicle listing is updated regularly so the tax returns filed by the City include all fuel usage by off-road vehicles.</p>

<ul style="list-style-type: none"> Accounting Services should gather the necessary information from Fleet to submit past eligible tax refunds and submit amended returns to exclude “off-road” fuel purchases on the “on-road” fuel tax returns. 	<ul style="list-style-type: none"> ✓ Completed. The City submitted amended off-road tax returns and received a refund of \$23,785 from the Department of Revenue.
<p>To ensure that the fuel operations processes are operating as intended and efficiently and effectively</p>	
<ul style="list-style-type: none"> Update the fuel operations procedures to reflect current operating procedures performed by staff. 	<ul style="list-style-type: none"> ✓ Completed in the prior period.
<ul style="list-style-type: none"> Develop and implement performance measures to assist in evaluating the efficiency and effectiveness of fuel operations. Such measures should consider resource requirements (inputs), efficiency (outputs and outcomes), and effectiveness measures. 	<ul style="list-style-type: none"> ✓ Completed. Management identified three performance measures in May 2008. Two measures related to inventory will be tracked monthly and one measure related to compliance with environmental requirements will be tracked annually.

Table Legend:

- Issue addressed in the original audit
- ✓ Completed
- ◆ Partially Completed
- Not Completed

Conclusion

As described in detail in Table 1, of the seven action plan steps due as of September 30, 2008, four steps were completed, two steps were partially completed, and the completion date for the remaining step was amended to March 2009.

The three remaining action plan steps to be completed are related to 1) implementing additional oversight controls over the fuel operations and involves both Fleet and Accounting Services management; 2) assigning a system administrator independent of the fuel operations supervisor; and 3) implementing adequate password management controls within the FuelMaster system.

We appreciate the full cooperation provided during this audit follow-up from Fleet and Accounting Services staff.

Appointed Official’s Response

City Manager:

I’m pleased with the results of this follow-up. The results reflect management’s commitment to internal control and improved efficiency and effectiveness.

Copies of this audit follow-up #0906 or audit report #0801 may be obtained from the City Auditor's website (<http://talgov.com/auditing/index.cfm>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (Office of the City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

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