

Audit

Follow-up

As of March 31, 2009



Sam M. McCall, Ph.D., CPA, CGFM, CIA, CGAP
City Auditor

Fleet Fuel Operations

(Report #0801, Issued October 18, 2007)

Report #0915

June 3, 2009

Summary

This is the third 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.

Four action plan steps partially completed in prior periods were due to be completed during the follow-up period October 1, 2008, through March 31, 2009. Of these four steps, two were completed and two remain outstanding.

The two steps completed during this period are related to:

- Assigning a system administrator independent of the fuel operations supervisor.
- Implementing adequate password management controls within the FuelMaster system.

The two steps that remain outstanding are related to:

- Implementing additional oversight controls over the fuel operations and involves both Fleet and Accounting Services management.
- Reassessing the controls over fuel inventories at the department-specific tanks and provide guidance regarding controls that need to be implemented.

Management has revised the date for implementing these controls to September 30, 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.

Original 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.

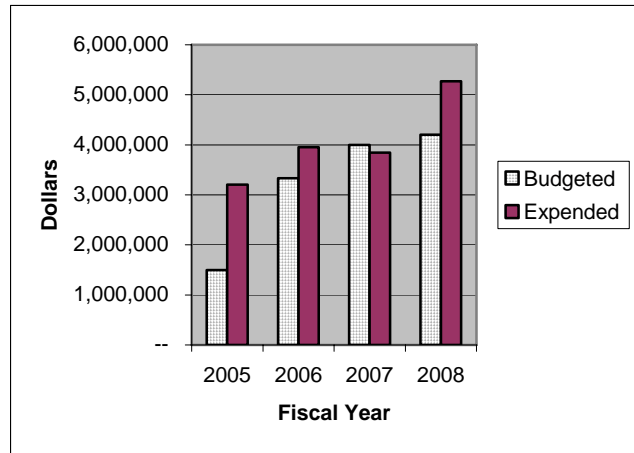
Report #0915

This is our third 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 March 31, 2009. To obtain information we interviewed key Fleet and Accounting Services staff, reviewed relevant documentation, and computer application security configuration settings.

Background

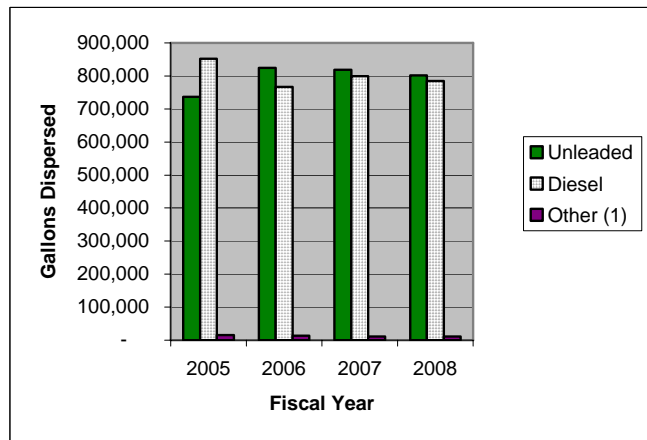
For City Fleet operations, the majority of dollars spent on fuel was purchased for vehicle use through Fleet Management. Figure 1 shows the dollars spent on fuel during fiscal years 2005 - 2008. Fuel costs have continued to rise over the last four years. To minimize fuel costs, the City has been implementing steps to try to decrease fuel usage and increase safeguards over fuel. Figure 2 shows the total fuel dispensed during the same period, fiscal years 2005 - 2008.

**Figure 1
Fuel Costs for Fiscal Years 2005-2008**



Source: Accounting financial reports

**Figure 2
Gallons of Fuel and Oils Dispensed for Vehicle Operations for Fiscal Years 2005-2008**



Type of Fuel	FY2005	FY2006	FY2007	FY2008
Unleaded	736,491	824,074	819,055	801,416
Diesel	852,050	766,982	798,585	784,907
Other (1)	15,192	13,368	10,934	10,674
Totals	1,603,733	1,604,424	1,628,573	1,596,997

Source: Gallons dispensed from the FuelMaster system
 Note: (1) Includes: Oil 15W-40, Oil 5W-30, ATF DEX II, AW 68 Hydraulic Oil, Tractor Hydraulic

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 government 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 AIMs 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

operations. Management broke down the recommendations into 15 action plan steps. All steps were originally targeted to be completed by June 30, 2008.

Table 1 provides a summary of management’s action plan steps that were revised to be completed as of March 31, 2009, and their current status.

**Table 1
Action Plan Steps from Report #0801
Due as of March 31, 2009, and Current Status**

Action Plan Steps Due As of March 31, 2009	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 (originally June 30, 2008) to September 30, 2009. Accounting Services indicated that they needed to delay this action plan step due to the recent implementations of the PeopleSoft Financials upgrade and Revenue automated deposit reconciliation processes and the completion of the FY 2008 financial audit.
<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 in the prior period.
<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 in the prior period.

<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). 	<p>✓ Completed in the prior period.</p>
<ul style="list-style-type: none"> • Reassess the controls over fuel inventories at the department-specific tanks and provide guidance regarding controls that need to be implemented. 	<ul style="list-style-type: none"> ◦ Not Completed. Accounting Services and Fleet management have requested to amend this completion date (originally June 30, 2008) to September 30, 2009. Accounting Services indicated that they needed to delay this action plan step due to the recent implementations of the PeopleSoft Financials upgrade and Revenue automated deposit reconciliation processes and the completion of the FY 2008 financial audit.
<p>To improve the safeguards over the City’s Fleet fuel inventories</p>	
<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. 	<p>✓ Completed. The Fleet Administrative Specialist I is now the FuelMaster system administrator and is managing the application security. She is continuing to review users’ access assignments to ensure that users’ access capabilities do not exceed the employee’s job responsibilities.</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. 	<p>✓ Completed. The Fleet Administrative Specialist I has implemented tighter password controls in the FuelMaster system.</p>
<p>To ensure that the City is consistently filing for all eligible fuel tax refunds</p>	
<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>

<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. 	<p>✓ Completed in the prior period.</p>
<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. 	<p>✓ Completed in the prior period.</p>
<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. 	<p>✓ Completed in the prior period.</p>

Table Legend:

- Issue addressed in the original audit

✓ Completed

○ Not Completed

Conclusion

As described in detail in Table 1, of the four action plan steps remaining due as of March 31, 2009, two steps were completed and the anticipated completion date for the remaining two steps was amended to September 30, 2009.

The remaining action plan steps to be completed are related to implementing additional oversight and improved controls over the fuel operations and inventories and involves both Fleet and Accounting Services management.

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 audit follow-up. It reflects management's commitment to internal control and operational efficiency and effectiveness. I thank the audit staff for their assistance.

Copies of this audit follow-up #0915 or audit report #0801 may be obtained from the City Auditor's website (<http://www.talgov.com/auditing/auditreports.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).

Audit follow-up conducted by:
Beth Breier, CPA, CISA, Audit Manager
Sam M. McCall, Ph.D., CPA, CGFM, CIA, CGAP, City Auditor