

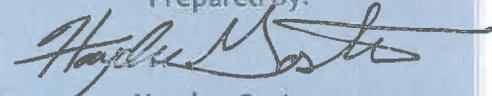
Audit #16-15:

Fuel Operations Audit

Detailed Audit Report

Office of the City Auditor and Clerk
Internal Audit

Prepared by:



Hayden Gaston

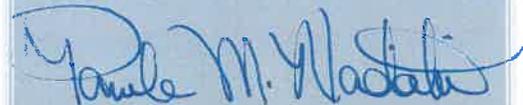
Senior Internal Auditor



D. Edward Daugherty, CPA

Manager, Internal Audit

Reviewed and Approved by:



Pamela M. Nadalini, MBA, CMC

City Auditor and Clerk

You can obtain copies of this report by contacting us at:
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www.sarasotagov.com





Date: September 13, 2016

To: Mayor Willie Charles Shaw
Vice Mayor Shelli Freeland Eddie
Commissioner Liz Alpert
Commissioner Suzanne Atwell
Commissioner Susan Chapman

From: Pamela M. Nadalini, MBA, CMC, City Auditor and Clerk

Subject: Audit #16-15: Fuel Operations Audit

Good afternoon, Mayor, Vice Mayor and Commissioners:

Attached for your information and review is a copy of the above-mentioned detailed report.

If you have any questions, please do not hesitate to call me at (941) 954-4169.

Thank you.

Attachment(s):

Detailed Audit Report #16-15
Executive Summary Audit Report # 16-15

c: Thomas Barwin, City Manager
Robert Fournier, City Attorney
D. Edward Daugherty, CPA, Manager, Internal Audit
File



Date: September 13, 2016
To: Thomas Barwin, City Manager
From: Pamela M. Nadalini, MBA, CMC, City Auditor and Clerk
Subject: Audit #16-15: Fuel Operations Audit

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If you have any questions, please do not hesitate to call me at (941) 954-4169.

Thank you.

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Detailed Audit Report #16-15
Executive Summary Audit Report # 16-15

c: City Commission
Marlon Brown, Deputy City Manager
Douglas Jeffcoat, Director, Public Works
John Lege, Director, Financial Administration
Heather Essa, MPA, CIA, CGAP, CFE, Deputy City Auditor & Clerk
Hayden Gaston, Senior Internal Auditor
D. Edward Daugherty, CPA, Manager, Internal Audit
File

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BACKGROUND AND INTRODUCTION

The Fleet Maintenance Division (FMD) of Public Works, an Internal Service Fund, oversees the fuel operations for the City of Sarasota. Fuel services were provided to various City departments throughout the audit period at the City's only fuel site located at the Public Works garage on 12th street. Authorized City employees are allowed to fuel City-owned assets including vehicles, tractors, small equipment and fuel storage containers.

Fuel is dispensed at the City's refueling site using the Fuel Master System (FMS). FMS tracks, monitors, and administers fuel usage for all fuel transactions, in a single database. There are a total of eight fuel pumps at the fuel island, four unleaded gasoline and four diesel fuel, which require activation through one of two ways: 1) fuel key and individual employee personal identification number (pin); or 2) through the Automotive Information Module system (AIM). Individual fuel keys (600 fuel keys in circulation) are assigned to a specific vehicle and are retained with that vehicle while individual employee pins (530 individual active employee pins) are specific to each employee and can be used to fuel any vehicle, gas can or generator. With FMS the user must manually enter their individual pin, vehicle number and odometer reading at the time of fueling. Each of the 126 vehicles installed with the AIM system has a sensor which activates the pump and captures specific vehicle information such as vehicle description and odometer readings.



The City also has Wright Express (WEX) fuel cards that allow employees to purchase fuel at any participating gas station. Any City employee that has an individual employee fuel pin and has been given a WEX card has the ability to use it. The Sarasota Police Department has separate WEX cards that are not maintained or administered through FMD and were not included as part of this audit.

The following table summarizes activity for fuel purchases for the audit period:

Fleet Maintenance Division Fuel Inventory Purchases ¹				
	Fiscal Year Ended September 30, 2015		For the 6 months Ended March 31, 2016	
Type of Fuel	Gallons Purchased	Cost	Gallons Purchased	Cost
Unleaded Gasoline	225,039	\$544,794	112,035	\$206,055
Diesel Fuel	102,410	\$294,105	51,938	\$112,295

FMD bills each department, on a monthly basis, based on their fuel usage for the previous time period as captured by FMS.

¹ Fuel Inventory Purchases do not include WEX fuel card activity.

AUDIT PURPOSE

This audit was performed to evaluate the adequacy of internal controls of the City's fleet fuel operation administered through FMD, which includes the operations of the City's fuel site, as well as the fuel card program.

AUDIT SCOPE

Our audit tested the controls related to the fuel program, including fuel keys, individual employee pins, AIM system and fuel tax credit reporting. As part of our review we performed analytical reviews of higher risk transactions such as fueling during weekends, and before/after normal work hours. In addition, we conducted analytical reviews of transactions with inconsistent data or data that indicated the likelihood of fraud, error, waste, or abuse. Testing was performed over fuel purchases with the contracted fuel vendor as well as monthly fuel tax credit reports. The audit period was from October 1, 2014 – March 31, 2016 (18 months).

AUDIT OBJECTIVES

The audit focused on:

- 1) Determining whether processes are in place to provide reasonable assurance that fuel usage is regularly and accurately monitored and safeguards are in place to authorize users and restrict fuel access to valid users;
- 2) Determining the adequacy of internal controls and processes relative to the fuel management system;
- 3) Determining whether data on fuel usage is monitored and reported to the proper outside agencies when required.



AUDIT STANDARDS

The auditor conducted this audit in accordance with generally accepted government auditing standards. Those standards require that the auditor plan and perform the audit to provide a reasonable basis for findings and conclusions based on audit objectives. The auditor believes that the evidence obtained provides a reasonable basis for findings and conclusions based on the audit objectives.

The Internal Audit Division strives to follow the guidance included in the Institute of Internal Auditors (IIA) International Professional Practices Framework however the Standards do not allow the department to note that reports are prepared in accordance with IIA Standards until the quality assurance process indicates such compliance.

TESTING METHODOLOGY

In order to fulfill the audit objectives, Internal Audit:

- Interviewed appropriate personnel;
- Evaluated compliance with departmental inventory instructions;
- Performed sample test counts² to verify and recalculate fuel costs to assure accuracy, and compliance with contracts;
- Reviewed user access to fuel software systems;
- Evaluated segregation of duties concerning fuel activities;
- Reviewed fuel reconciliations and adjusting journal entries;
- Evaluated management's oversight of the fuel reporting process and operations; and
- Reviewed the fuel cards and user ID numbers for adequate controls and safeguards.

AUDIT CRITERIA

Conditions noted by Internal Audit during testing and fieldwork were compared to audit criteria, which included:

- Public Works Policies and Procedures
- City of Sarasota Administrative Regulations
- Florida Department of Revenue Instructions and Forms

DISCUSSION POINTS AND RECOMMENDATIONS FOR IMPROVEMENTS

Discussion points and recommendations for improvements in this report are offered as independent guidance to management for their consideration in strengthening controls.

A complete list of Internal Audit's recommendations is located on page 14 of this report. For information on priority levels assigned to audit recommendations, please see [Exhibit A](#). Our discussion points and recommendations are separated according to the specific audit objectives.

DISCUSSION POINTS & RECOMMENDATIONS FOR IMPROVEMENTS

AUDIT OBJECTIVE #1

BACKGROUND

The Equipment Maintenance Division Coordinator Administrative (CA) is currently the only employee that administers the fuel operations at the City. The CA spends approximately 20% of his time on fuel operations work; the remaining time is spent on other nonfuel operations related FMD work. The CA issues, activates and deactivates fuel keys, fuel cards and employee fuel pins. Additionally, the CA reviews and resolves daily FMS exception reports for inconsistent vehicle odometer readings as well as prepares the monthly departmental

² A judgmental sample of items was selected for audit testing based on either number of transactions or cost.

fueling billing. During the audit period approximately 31,000 fuel transactions occurred and were recorded in FMS.

Based on discussions with the CA, reviewing listing of fuel users, reviewing listing of fuel dispensed by date, time, fuel key and employee pin the following discussion points and recommendations were identified to strengthen the internal control structure over monitoring, issuing and deactivating fuel users and fuel usage:

DISCUSSION POINT AND RECOMMENDATION (1): COMPREHENSIVE CITY-WIDE POLICIES AND PROCEDURES OF THE FUEL PROGRAM

Policies and procedures are not currently in place to govern the City's fuel program. Procedures have not been established to specify the authority and conditions for the issuance, return, and termination of fuel keys, fuel cards or employee fuel pins. Responsibilities for monitoring the fuel program and the related monitoring procedures have not been documented. Monthly review of fuel consumption by department is not being performed nor has the responsibility for this function been assigned. Training requirements are not documented. An employee acknowledgement of the authorized uses of the fuel keys, pins and cards has not been developed for employees to sign. Additionally, FMS passwords are not unique to the individual users of the FMD.

RECOMMENDATION:

The City should develop a comprehensive fuel program policy and related procedures to address:

- Authority and conditions for the issuance of fuel key, employee fuel pin, and WEX fuel cards;
- Employee training and acknowledgement of responsibilities for fuel program;
- Recordkeeping, termination of a fuel key, employee fuel pin and WEX fuel card;
- Software security;
- Management monitoring of consumption and operating procedure compliance.

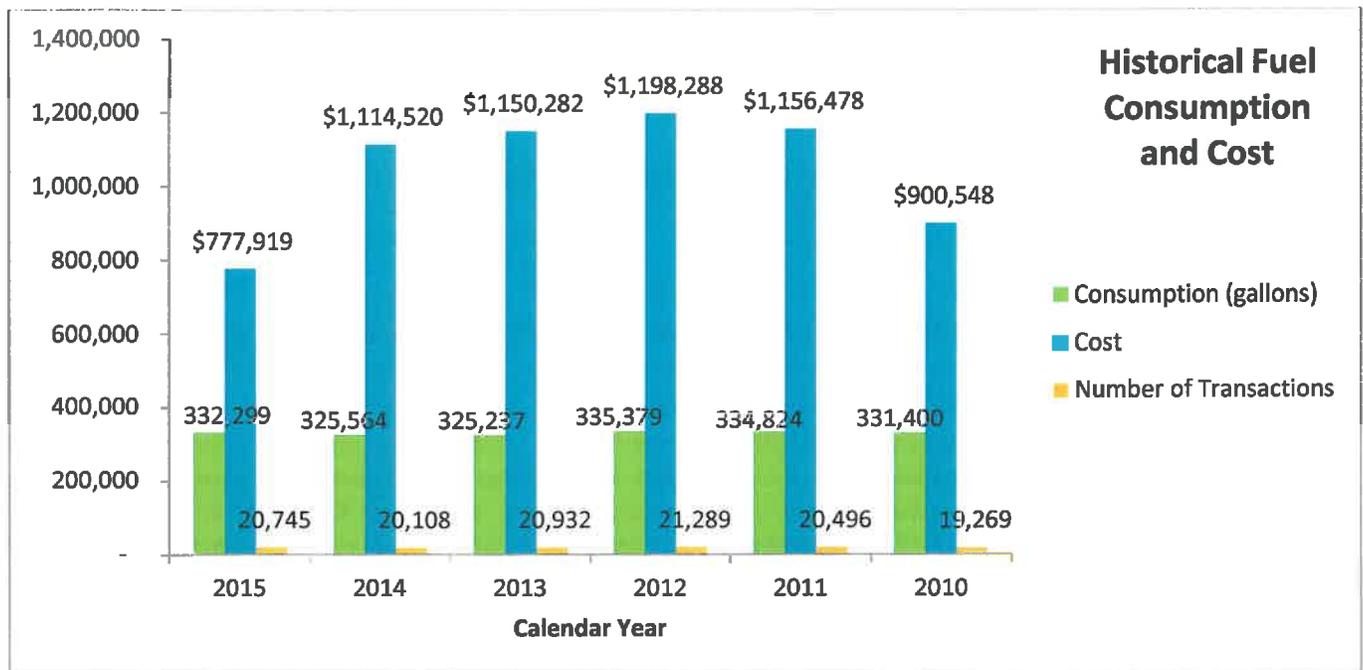
DISCUSSION POINT AND RECOMMENDATION (2): INTERNAL CONTROLS OVER FUEL USAGE

FMS requires employees to enter their user ID, vehicle odometer reading and use the vehicle fuel key to activate the fuel pump (preventive control). Additionally, FMS automatically prints daily fuel exception reports that are reviewed for odometer readings that are not in line with expected odometer readings based on the prior fill up (detective control). Vehicles with the AIM system installed activate the pump when the system recognizes the vehicle and the fuel nozzle is inserted into the tank (preventive control). These types of controls are good first steps; however additional procedures and practices need to be put into place to establish an effective control environment that can adequately safeguard the fuel program from errors, waste, and abuse.

The internal controls over reviewing, approving, and monitoring fuel usage are significantly deficient. FMD and the individual departments are not performing monthly reviews of fuel transactions, active fuel users or fuel user activity. Interdepartmental billing for fuel is driven by usage and market fuel prices, which fluctuates between months and years. Departments should recognize if their fuel costs are increasing or decreasing due to market



fluctuations in fuel costs or actual fuel usage and use it as a tool for budgeting in addition to reviewing vehicle usage. Below is an historical analysis of fuel usage for the previous five years:



Additionally, lack of controls over activating, issuing and terminating fuel keys, employee fuel pins and WEX fuel cards are not conducive to creating a strong control environment. During the audit period there were 600 active fuel keys. These fuel keys are assigned to vehicles, gas cans and some are spares. Our audit identified the following number of fuel users that have active fuel pin numbers as of March 31, 2016:

Number of Fuel Users			
Total Number of Active Fuel Users ³	Number of Employees Who Have Terminated but Still Included as Active Users	Number of Employees Who Have More Than One User ID	Number of Employees Who are on Leave but Still Included as Active Users
530	76	5	2

As indicated in the table above there are 76 users that have terminated from the City (as far back as 2008), yet still have active fuel pins. There are 5 employees that have more than one fuel pin and 2 users that are on leave that also have active fuel pins. Additionally out of the 530 active fuel users 3 could not be found at all when compared to the City's payroll system. There were also 15 Sarasota Housing Authority employees that had active fuel pins included in the 530 active fuel users, 5 of whom had terminated and still included as active. There are no procedures in place that provide for documented notice to be provided to FMD of terminated employees. There are no procedures in place for documented notice to be provided to add a fuel user to FMS. There are currently no procedures in place for management review of newly added fuel users or fuel keys as well as procedures for reviewing fuel users on a regular basis.

Tests performed over monthly department billings identified instances where departments were billed and paid for fuel usage that was not related to their department. The instances identified all appeared to follow the same pattern, where a vehicle was transferred from one department to another, however the system was not updated to reflected the transfer, and as a result one department was being billed and paying for another

³ Includes all City of Sarasota Departments

department's use of that vehicle. Communication and documentation between departments and FMD is important for maintaining accurate vehicle listings and correct interdepartmental billings.

Audit testing also noted 4 fuel gas can keys that had quantities per transaction that were greater than expected based on the fuel key quantity limits. For example, a fuel gas can key that's intended to fill a 5 gallon gas can had dispensed 40 gallons on one transaction. This could be a result of incorrectly using the fuel gas can key to fill a vehicle, filling multiple gas cans (passing the pump) or having the key mixed up with other fuel keys. FMS does have the ability to limit gallons dispensed on a per fuel key basis, this was not consistently applied with the activation of each fuel key.

RECOMMENDATION:

Good business practices require a separation of duties in maintaining proper internal controls for authorizing, processing, recording and reconciling transactions. Additionally reviewing fuel user's access, parameters and usage is imperative in maintaining strong controls over the fuel operations. Management should implement a comprehensive system of controls over the fuel program by implementing the following controls:

- Fuel usage should be monitored at a minimum on a monthly basis. Departments receiving monthly fuel billing worksheets should review them to ensure vehicles and usage being billed actually belongs to their department. Without the appropriate level of review, unusual fueling transactions and errors may go unnoticed;
- Fuel key parameters should be reviewed to determine fuel limits, fuel type and key purpose are appropriate given the key's purpose;
- Require a "Driver Authorization" form to be submitted by the employee's department prior to entering the employee into FMS;
- All fuel using employees should be trained on the fuel program, including how to properly complete a fuel transaction and allowable fuel key usage;
- All employees should sign an acknowledgement that they understand the prescribed procedures, obligations and responsibilities of being an authorized employee fuel user;
- Procedures should be put in place to perform periodic user access reviews to ensure only appropriate users have access to the fuel pumps, and that the access is appropriate for users' job responsibilities;
- Documentation from departments authorizing new fuel users as well as documentation informing fuel operations of fuel user terminations. Failure to timely terminate unused accounts creates a significant risk that could result in unauthorized or inappropriate access to the pumps.



Employees activating a fuel pump by inserting a fuel key in Fuel Master

AUDIT OBJECTIVE #2

BACKGROUND

There are two fuel tanks, one unleaded gasoline tank and one diesel fuel tank, located at 1761 12th Street. The two tanks each have a capacity of 20,000 gallons and are monitored electronically via the Veeder Root tank and pump monitoring system and FMS. It is the responsibility of the CA in the Equipment Maintenance Department to monitor the fuel tanks, order fuel, receive fuel, adjust inventory levels and reconcile fuel readings. The City is



currently under contract with Mansfield Oil to provide fuel to the City at agreed upon rates that are tied to Oil Price Information Service (OPIS) indices. The Mansfield contract was renewed on May 25, 2016 for two years unless a notice of termination is provided by either party 90 days in advance. During the audit period there were 62 fuel deliveries to the 12th Street location.

Based on discussions with the CA, testing of fuel invoices and fuel tank delivery observations the following discussion points and recommendations were identified to strengthen the internal control structure over the fuel management process:

DISCUSSION POINT AND RECOMMENDATION (3): INTERNAL CONTROLS OVER FUEL MANAGEMENT

As noted above, one central person the CA, is responsible for the fuel management process. When one central person orders, receives and reconciles fuel there is an increased risk of error, or abuse to occur and go undetected. Additionally, based on the fuel invoices that were tested it was not clear that the fuel quantity received was agreed against the fuel reported on the bill of lading, nor was it clear based on the bill of lading, which employee received the fuel. The fuel invoices did have evidence, in the form of hand written notes, which showed the fuel billed was recalculated based on terms of the contract.

RECOMMENDATION:

Good business practices require a separation of duties in maintaining proper internal controls for ordering, receiving, recording, reconciling and approving transactions. Management should implement a comprehensive system of controls over fuel management by providing a separation in the duties of the department. No one individual should be able to authorize a transaction, record the transaction, and maintain custody of the asset resulting from those transactions. Incompatible duties enable one individual to commit an irregularity and then conceal it in the ordinary course of duties. Incompatible duties should be separated among different individuals within the same department. Implementing a division of roles and responsibilities reduces the possibility for a single individual to compromise a critical process of the operation. Additionally, receiving documents should



provide evidence notating the employee who received the fuel as well as agreement with the quantity of fuel delivered.

AUDIT OBJECTIVE #3

BACKGROUND

Monthly fuel reports are prepared and sent to the Florida Department of Revenue (FDOR). These reports are used to calculate fuel tax refunds on fuel that was used for exempt (nontaxable) purposes. We performed tests to determine whether these reports are being prepared in accordance with FDOR instructions along with tests over the process of preparing these fuel tax returns.

DISCUSSION POINT AND RECOMMENDATION (4): FUEL TAX RETURNS

The monthly fuel tax returns filed with FDOR include beginning physical inventory, receipts, disbursements, gains and losses, and the ending physical inventory. The City is entitled to the fuel credits for highway use gallons less any gains multiplied by the credit rate. This calculation is done for both unleaded gasoline and diesel fuel. The gains or losses are due to fuel shrinking and expanding due to changes in temperature or evaporation in the tanks.

Based on review of the monthly fuel tax returns for the audit period and discussion with FDOR, the City's gains or losses on the fuel are automatically calculated based on beginning inventory, receipts, disbursements and ending inventory. For the 18 month audit period testing identified differences in the amount of fuel disbursed (used) and reported as highway use on the tax returns when compared to FMS internal reports of fuel dispersed. The amount reported for highway use is important because it is one of the driving factors that affect the amount of credits received on the fuel tax return.

Once the monthly fuel returns are uploaded into FDOR's website the returns are processed by FDOR and then an electronic payment is made to the City. Currently there is no accounts receivable recorded when the fuel return is uploaded and there is no supporting documentation provided to Finance to inform them that a payment should be coming or what service the payment is related to. Finance receives multiple electronic payments from the State with minimal descriptions of what the payment is for or what time period the payment is referencing and sometimes payments are received months after the City has requested payment. The result of not recording receivables and notifying Finance of the expected payment was that only 9 payments were recorded in revenue during fiscal year 2015. The months not recorded totaled \$12,642 and were for July, August and September payments which were recorded in fiscal year 2016 in error, because these payments were received after September 2015 and it was not clear to which time period they were related. Also, the December 2015 and January 2016 fuel tax returns amounts received did not agree to the amounts that were uploaded to FDOR. The December 2015 refund was \$730.35 more than the uploaded amount and the January 2016 refund was \$13.19 less than the uploaded amount. No reconciliation of the differences were performed.



RECOMMENDATION:

Procedures should be developed that provide guidance for preparing the monthly fuel tax returns. Procedures should include steps for reconciliation of monthly fuel tax returns against amounts reported in FMS, differences, if any, should be identified and resolved prior to uploading the returns to FDOR.

When the fuel tax return is uploaded there should be a receivable and revenue entry recorded to properly account for the transaction along with including any supporting documentation of the transaction. Payments that are received from FDOR should be reconciled against the expected payment and any differences resolved. Additionally, at year end the revenue accounts should be reviewed to ensure all months have been properly accounted for and included in the correct fiscal year.

AUDIT CONCLUSIONS

The audit did identify the lack of comprehensive policies and procedures over the City's fuel operations. Additionally a weak control environment over fuel keys, employee fuel pins and fuel monitoring contribute to increased risk or exposure to the City for errors, waste or abuse to occur and go undetected. Unrecorded fuel tax return revenue and receivables also increase the risk for errors or abuse to occur and go undetected. We believe our audit will help identify and implement controls needed to improve accountability for fuel usage and provide safeguards for fuel and facilities where fuel is supplied, stored and dispensed.

AUDIT OBSERVATIONS AND RECOMMENDATIONS

Issue #	Subject	Priority	Observation	Recommendation	Do not Concur	Concur	Management Response	Committed Action Item Due Date
1	Comprehensive City-Wide Policies and Procedures of the Fuel Program	High	Policies and procedures are not currently in place to govern the City's fuel program. Procedures have not been established to specify the authority and conditions for the issuance, return, and termination of fuel keys, fuel cards or employee fuel pins. Responsibilities for monitoring the fuel program and the related monitoring procedures have not been documented. Monthly review of fuel consumption by department is not being performed nor has the responsibility for this function been assigned. Training requirements are not documented. An employee acknowledgment of the authorized uses of the fuel keys, pins and cards has not been developed for employees to sign. Additionally, FMS passwords are not unique to the individual users of the Fleet Maintenance Division.	<p>We recommend the City develop a comprehensive fuel program policy and related procedures to address:</p> <ul style="list-style-type: none"> • Authority and conditions for the issuance of fuel key, employee fuel pin, and WEX fuel cards; • Employee training and acknowledgement of responsibilities for fuel program; • Recordkeeping, termination of a fuel key, employee fuel pin and WEX fuel card; • Software security and monitoring; • Management monitoring of consumption and operating procedure compliance. 		X	<p>A written policy will be developed to include:</p> <ul style="list-style-type: none"> • Authority for issuance of fuel key, PIN, and WEX cards • Employee training and documented acknowledgement upon receipt of PIN regarding proper use of the City's Fuel Program • Method of record keeping for employees who have terminated or changed departments for proper billing. • Use of available security features contained in the Fuel Management System software to provide limits for individual fuel keys. • Monthly reporting to user departments of fuel consumption for their review and monitoring. 	10/1/16

Issue #	Subject	Priority	Observation	Recommendation	Concur	Do not Concur	Management Response	Committed Action Item Due Date
2	Internal Controls Over Fuel Usage	High	<p>FMD and the individual departments are not performing monthly reviews of fuel transactions, active fuel users or fuel user activity.</p> <p>Controls over activating, issuing and terminating fuel keys, employee fuel pins and WEX fuel cards are not in place.</p>	<p>We recommend management implement a comprehensive system of controls over the fuel program by implementing the following controls:</p> <ul style="list-style-type: none"> Fuel usage should be monitored at a minimum on a monthly basis. Departments receiving monthly fuel billing worksheets should review them to ensure vehicles and usage being billed actually belongs to their department. Without the appropriate level of review, unusual fueling transactions and errors may go unnoticed; Fuel key parameters should be reviewed to determine fuel limits, fuel type and key purpose are appropriate for the key's; Develop and require a Driver Authorization form to be submitted by the employee's department prior to entering the employee into FMS; All fuel using employees should be trained on the fuel program, including how to properly complete a fuel transaction and allowable fuel key usage; All employees should sign an acknowledgement that they understand the prescribed procedures, obligations and responsibilities of being an authorized employee fuel user; 	Concur		<ul style="list-style-type: none"> Fleet will provide for each user department a monthly report of fuel consumption for their review. Fleet will update the Fuel Management System based on a monthly report provided by Human Resources which provides employee terminations and changes in department status. Annually, Fuel Key parameters will be reviewed by the Fleet Manager to insure appropriateness. Fleet will request authorization from department head or approved designee for assignment of PIN prior to issuance. Upon receipt of Fuel PIN number employees will be instructed on the fuel system and restricted use of fuel keys. Employees will be required to sign a form acknowledging receipt of instruction. 	9/1/16

Issue #	Subject	Priority	Observation	Recommendation	Do not Concur	Concur	Management Response	Committed Action Item Due Date
3	Internal Controls Over Fuel Management	High	<p>One central person is responsible for the fuel management process. When one central person orders, receives and reconciles fuel there is an increased risk of error, fraud or abuse to occur and go undetected. Additionally, based on the fuel invoices that were tested it was not clear that the fuel quantity received was agreed against the fuel on the bill of lading, nor was it clear based on the bill of lading, which employee received the fuel.</p>	<ul style="list-style-type: none"> Procedures should be put in place to perform periodic user access reviews to ensure only appropriate users have access to the fuel pumps, and that the access is appropriate for users' job responsibilities; Documentation from departments authorizing new fuel users as well as documentation informing fuel operations of fuel user terminations. Failure to timely terminate unused accounts creates a significant risk that could result in unauthorized or inappropriate access to the pumps. 				
			<p>We recommend management implement a comprehensive system of controls over fuel management by providing for a separation in the duties of the department. No one individual should be able to authorize a transaction, record the transaction, and maintain custody of the asset resulting from those transactions. Incompatible duties should be separated among different individuals within the same department.</p>			X	<p>Segregation of Duties will include: Individual ordering Fuel, Separate Individual acknowledging and documenting receipt of fuel and 3rd individual processing for payment.</p>	9/1/16
			<p>We also recommend that receiving documents provide evidence notating the employee who received the fuel as well as agreement with the quantity of fuel delivered.</p>					

Issue #	Subject	Priority	Observation	Recommendation	Do not Concur	Concur	Management Response	Committed Action Item Due Date
4	Fuel Tax Returns	High	<p>The amount of fuel disbursed and reported as highway use on the tax returns did not agree to the Fuel Master System internal reports of fuel disbursed.</p> <p>Additionally, account receivables are not being recorded when the fuel return is uploaded as well as supporting documentation is not being provided to Finance.</p>	<p>We recommend procedures be developed that provide guidance for preparing the monthly fuel tax returns. The procedures should include steps for reconciliation of monthly fuel tax returns against amounts reported in FMS, differences, if any, should be identified and resolved prior to uploading the returns to FDOR.</p> <p>We recommend a receivable and revenue entry be recorded to properly account for the fuel tax return transaction along with providing any supporting documentation of the transaction. Payments that are received from FDOR should be reconciled against the expected payment and any differences resolved. Additionally, at year end the revenue accounts should be reviewed to ensure all months have been properly accounted for and included in the correct fiscal year.</p>		X	<p>Step added to the State Fuel Tax Return procedure to provide the Finance Department with copy and appropriate backup documentation of the monthly Sales Fuel Tax Return upon submittal to the State. Based on the submittal, the Finance Dept. will establish an accounts receivable. Upon receipt of the actual payment, the Finance Dept. will reconcile the actual payment to the receivable. The Finance Dept. will notify Fleet of any differences to be resolved.</p>	9/30/16

EXHIBIT A: INTERNAL AUDIT RECOMMENDATION PRIORITIES

Internal Audit utilizes the following classification scheme applicable to internal audit recommendations and the appropriate corrective actions:

Priority Level ¹	Description	Implementation Action ³
High	Fraud or serious violations are being committed or have the potential to occur, security issues, significant financial or non-financial losses are occurring or have the potential to occur. ²	Immediate
Medium	A potential for incurring moderate financial or equivalent non-financial losses exists. ²	Within 60 days
Routine	Operation or administrative process will be improved.	60 days to 6 months

- 1 The City Auditor and Clerk is responsible for assigning internal audit recommendation priority level categories. A recommendation that clearly fits the description for more than one priority level will be assigned the higher level.
- 2 For an audit recommendation to be considered related to a significant financial loss, it will usually be necessary for an actual loss of \$25,000 or more to be involved, or for a potential loss (including unrealized revenue increases) of \$50,000 to be involved. Equivalent non-financial losses would include, but not be limited to, omission or commission of acts on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens.
- 3 The implementation time frame indicated for each priority level is intended as a guideline for establishing target dates. Determining proposed action dates is the responsibility of the Charter Official(s) over the area(s) or function(s) audited.

NOTE: Please note that this exhibit is a standard form which appears in every audit and is meant to be utilized to aid management in understanding the seriousness or potential seriousness of an audit observation. A "High" or "Medium" priority rating assigned to an audit observation should not be construed to mean that fraud or wrongdoing is, in fact, occurring but rather fraud or wrongdoing has the potential to occur in the absence of adequate internal controls.