Audit #16-15:

Fuel Operations Audit

Executive Summary Report

Office of the City Auditor and Clerk
Internal Audit

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EXECUTIVE SUMMARY
AUDIT 16-15: FUEL OPERATIONS AUDIT

AUDIT PURPOSE

This audit was performed to evaluate the adequacy of internal controls of the City's fleet fuel operation administered through the Fleet Maintenance Division, 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, Automotive Information Module system (AIM) 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).

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

REPORT CONTENT AND LIMITATION OF USE

This executive summary report is limited in detail. In order to obtain the full background on a particular item, please review the Detailed Audit Report prior to drawing conclusions based on the limited information contained in this report.

[1] Fuel Inventory Purchases do not include Wright Express (WEX) fuel card activity.

AUDIT OBJECTIVES AND CONCLUSIONS

Audit Objective	Objective Rating
1) Determine 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;	X
2) Determine the adequacy of internal controls and processes relative to the fuel management system;	X
3) Determine whether data on fuel usage is monitored and reported to the proper outside agencies when required.	X

*Objective ratings indicate the levels at which the objectives were met; rating definitions are included in **Exhibit A** on page **7**.*

The results of our review indicate:

- Generally processes are not in place to provide reasonable assurance that fuel usage is regularly and accurately monitored. Additionally, safeguards are not in place to authorize users and restrict fuel access to valid users.
    - Monthly review of fuel consumption or fuel users, by department, is not being performed nor has the responsibility for this function been assigned.
    - 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.
- Internal controls and processes relative to the fuel management system are not currently in place to provide a strong control environment.
    - One central person is responsible for the fuel management process, ordering, receiving and reconciling fuel (segregation of duties).
    - 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.
- Data on fuel usage is reported to outside agencies however the usage is not being monitored.
    - It appears that monthly reports are being prepared and reported, however it was noted that Florida Department of Revenue (FDOR) fuel tax returns reporting on quantity of highway fuel used do not always agree to internal Fuel Master reports.
    - Expected payments from FDOR fuel tax returns are not being recorded in the FMS accounting software.

A complete list of audit recommendations begins on page 3 of this report.

AUDIT 16-15: FUEL OPERATIONS AUDIT
OBSERVATIONS AND RECOMMENDATIONS

Issue #	Subject	Priority	Observation	Recommendation	Concur	Do not 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 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 Fleet Maintenance Division.	We recommend the City 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 and monitoring; • Management monitoring of consumption and operating procedure compliance.	X		A written policy will be developed to include: • 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	FMD and the individual departments are not performing monthly reviews of fuel transactions, active fuel users or fuel user activity. Controls over activating, issuing and terminating fuel keys, employee fuel pins and WEX fuel cards are not in place.	We recommend management 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 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;	X		• 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	Concur	Do not concur	Management Response	Committed Action Item Due Date
				• 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.				
3	Internal Controls Over Fuel Management	High	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 reported on the bill of lading, nor was it clear based on the bill of lading, which employee received the fuel.	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. 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.	X		Segregation of Duties will include: Individual ordering Fuel, Separate Individual acknowledging and documenting receipt of fuel and 3rd individual processing for payment.	9/1/16

Issue #	Subject	Priority	Observation	Recommendation	Concur	Do not concur	Management Response	Committed Action Item Due Date
4	Fuel Tax Returns	High	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. Additionally, account receivables are not being recorded when the fuel return is uploaded as well as supporting documentation is not being provided to Finance.	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. 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.	X		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.	9/30/16

EXHIBIT A: AUDIT RATING SYSTEM

The audit ratings listed below are based on the auditor's assessment of whether the following control objectives have been met:

- Safeguarding of assets,
- Effectiveness and efficiency of operations,
- Reliability of financial and operating information, and
- Compliance with City policies, regulations or rules and/or other governmental laws and regulations.

Red- A red control rating denotes significant business risk or exposure to the City that requires immediate attention and remediation efforts. The controls reviewed do not appear to provide reasonable assurance that the control objectives are being met. The City is being exposed to a high level of business risk and exposure. Management is advised to immediately review the design and effectiveness of existing controls or consider implementing new or additional controls.

Yellow- A yellow control rating denotes opportunities for improvement exist relating to the controls reviewed. If this state of control is not improved, it could lead to a higher than acceptable level of business risk or exposure to the City. The controls reviewed provide some, but not sufficient assurance that control objectives are being met. Management is advised to review the design and effectiveness of existing controls or consider implementing new or additional controls on a priority basis.

Green- A green control rating indicates that the controls reviewed at the time of the audit indicated a satisfactory or acceptable state of control, where risk appears to be minimized and appropriately managed. Controls reviewed appear to provide a high degree of assurance that control objectives are being met. To maintain this rating management is advised to continue to assess the control systems and monitor existing controls for efficiency and effectiveness as business and organizational changes occur.