

Audit

Follow-up

As of March 31, 2008



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

Fleet Fuel Operations

(Report #0801, Issued October 18, 2007)

Report #0811

June 20, 2008

Summary

This is the first 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 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 October 1, 2007, through March 31, 2008, 13 action plan steps were due to be completed. Of those 13 steps, 7 have been completed and 6 were partially completed.

The seven steps completed during this period are related to:

- Incorporating all 30 tanks into the reconciliation process.
- Inputting all fuel purchases into the FuelMaster system.
- Inputting the gallons delivered per the invoice into the FuelMaster system.

- Controlling and safeguarding the master keys to the FuelMaster controller dispensing unit cabinets.
- Assigning individual user ids in the FuelMaster system.
- Determining and communicating what off-road equipment meets the eligibility for fuel tax refunds.
- Updating the fuel operations procedures to reflect current operating procedures.

The six steps partially completed during this period are related to:

- Ensuring that the calculated inventory balance and the FuelMaster system inventory balances are properly reconciled.
- Implementing a process to test the accuracy of the electronic tank monitoring system.
- Working with the Florida Department of Revenue to receive past eligible tax refunds and submit amended returns to exclude "off-road" fuel purchases on the "on-road" fuel tax returns.
- Implementing performance measures to assist in evaluating the efficiency and effectiveness of fuel operations.
- Assigning a systems administrator for the FuelMaster system different from the fuel operations supervisor.
- Implementing adequate password management controls within the FuelMaster system.

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.

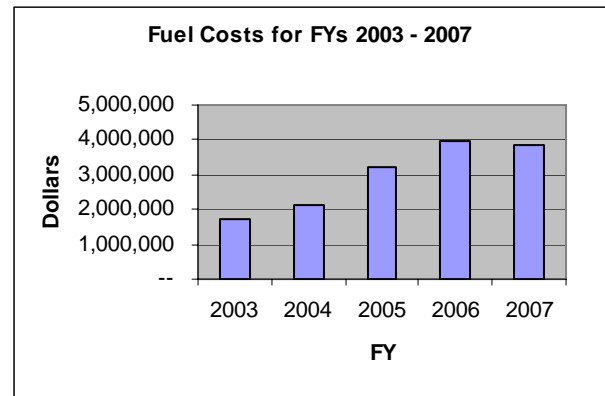
Report #0811

This is our first 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, 2008. To obtain information we interviewed key Fleet and Accounting staff, reviewed relevant documentation, recalculated monthly reconciliation worksheets, 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 amounts are 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 March 31, 2008, and their current status.

Table 1
Action Plan Steps from Report #0801
Due as of March 31, 2008, and Current Status

Action Plan Steps Due As of March 31, 2008	Current Status
To enhance controls related to the fuel reconciliation process	
<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. All tanks except for the tanks at the two power plants had already been included in the reconciliation process. The Fleet Fuel staff began including the remaining tanks at the power plants in the reconciliation as of March 31, 2008.
<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. All purchases are input into the FuelMaster system, including the fuel truck and power plants.
<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"> ◇ Partially completed. The steps have been revised to use the FuelMaster system processes in the correct order to obtain a more accurate ending inventory balance in the FuelMaster system to be incorporated into the monthly fuel reconciliation. However, the process is very manually driven and mistakes can be made that may not be detected. During our follow-up review, we noted two additional steps that should be included in the reconciliation process: 1) staff should compare the calculated reconciliation ending balances to the FuelMaster reported ending balances to identify the major differences needing further investigation; and 2) major differences should be communicated to management for their information and to determine what (if any) additional steps should be performed.
<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"> ◇ Partially completed. Fleet Fuel staff worked with the tank manufacturer and determined that it will be possible to physically measure the fuel in the large tanks at the Fleet main fueling facility by installing caps on the tanks. Management has ordered the caps and plans to begin physically measuring the fuel in those tanks in June 2008.
<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. Gallons received per the invoice are recorded into the reconciliation for amounts delivered.

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. 	<ul style="list-style-type: none"> ✓ Completed. Controls have been implemented to limit and track the distribution of and safeguarding of the master keys to the fuel distribution system.
<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. Management indicated that a security administrator was designated for the FuelMaster system in May 2008. We will review the security administrator’s activities during the next follow-up period.
<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. 	<ul style="list-style-type: none"> ✓ Completed. Individual user ids have been assigned to each user in the system.
<ul style="list-style-type: none"> • Implement adequate password management controls within the FuelMaster system. 	<ul style="list-style-type: none"> ◇ Partially completed. Management indicated that the designated security administrator implemented tighter password controls in May 2008. We will review the password configuration during the next follow-up period.
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. 	<ul style="list-style-type: none"> ✓ Completed. Fleet provides information to Accounting Services each quarter.
<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"> ◇ Partially completed. Accounting Services submitted amended returns for the affected periods and is currently working with the Florida Department of Revenue for final resolution.
To ensure that the fuel operations processes are operating as intended and efficiently and effectively	
<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. The changes recommended in the audit report were addressed and the fuel operations procedures were updated to reflect current operations.
<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), results (outputs), and efficiency and effectiveness measures (outcomes). 	<ul style="list-style-type: none"> ◇ Partially completed. Management identified three performance measures in May 2008 and indicated that they will begin tracking performance in June 2008.

Table Legend:

- Issue addressed in the original audit
- ✓ Completed
- ◇ Partially Completed

Conclusion

As described in detail in Table 1, of the 13 action plan steps due as of March 31, 2008, 7 steps were completed and 6 steps were partially completed.

During the next follow-up period, we will determine the status of those steps partially completed and the remaining two action plan steps scheduled to be completed by September 30, 2008.

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

Appointed Official's Response

City Manager:

I am pleased with the results of the follow-up audit. It reflects the efforts and continued enhancements to the vehicle fuel program by management. I would like to thank the audit staff, Fleet Management, and Accounting Services for their follow-up and continued improvements.

Copies of this audit follow-up #0811 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).

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