

# **Final Audit Follow-Up**

*As of September 30, 2009*



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

## **Fleet Fuel Operations**

*(Report #0801, Issued October 18, 2007)*

**Report #1005**

**January 7, 2010**

### **Summary**

This is the fourth and final 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. Of those, management completed 13 action plan steps prior to this follow-up period.

Two action plan steps partially completed in prior periods were due to be completed during the follow-up period April 1, 2009, through September 30, 2009. One step was completed, and the responsibility for completing the final remaining step is being turned over to management.

The completed step was to implement additional oversight controls over the fuel operations and involves both Fleet and Accounting Services management.

The remaining step turned over to management

for completion is for Accounting Services to reassess Fleet's controls over fuel inventories at the department-specific tanks and provide guidance regarding controls that need to be implemented.

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 #1005**

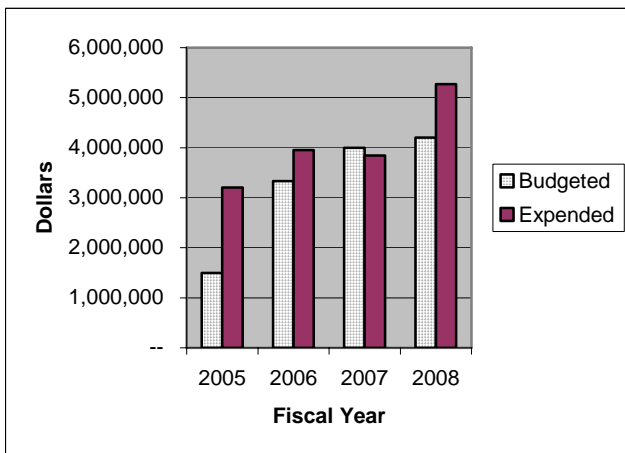
This is our fourth and final follow-up on action plan steps identified in audit report #0801. The purpose of this follow-up is to report on the progress and status in completing the action plan steps due for completion as of September 30, 2009. To obtain information we interviewed key Fleet and Accounting Services staff, reviewed relevant documentation, and computer application security configuration settings.

**Background**

For City Fleet operations, the majority of dollars spent on fuel was for vehicle use through Fleet Management. Figure 1 shows the dollars spent on fuel during fiscal years 2005 - 2008. Fuel costs continued to rise over those four years (2005-2008), primarily as a result of the increasing price of fuel. To minimize fuel costs, the City has been implementing steps to try to decrease fuel usage and increase safeguards over fuel.

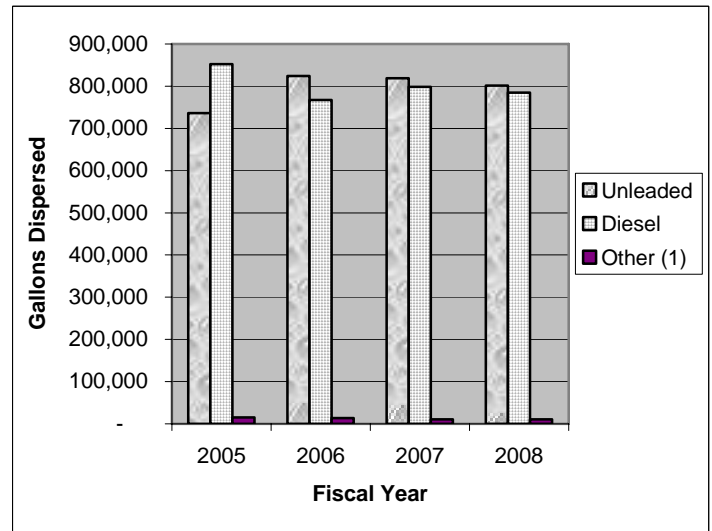
Figure 2 shows the total fuel dispensed during the same period, fiscal years 2005 - 2008. The figure shows the result of efforts to reduce the quantity of fuel used in the City.

**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
<b>Totals</b>	<b>1,603,733</b>	<b>1,604,424</b>	<b>1,628,573</b>	<b>1,596,997</b>

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 gallons stored) and 15 diesel fuel tanks (44,050 gallons stored). 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 September 30, 2009, and their current status.

**Table 1  
Action Plan Steps from Report #0801  
Due as of September 30, 2009, and Current Status**

Action Plan Steps Due As of September 30, 2009	Current Status
<b>To enhance controls related to the fuel reconciliation process</b>	
<ul style="list-style-type: none"> <li>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.</li> </ul>	<p>✓ <b>Completed.</b> Fleet has developed some additional controls over the fuel inventory. Examples of these controls include defining their tolerance threshold for the monthly fuel inventory differences (1%), securing and increasing accountability for the fuel pump control box key, and arranging for periodic independent oversight of the fuel inventory process. The City's Fleet Operational Managers Advisory Committee (OMAC) will provide the oversight of the inventory process, and Fleet is planning to have them review the process at 12/31/09.</p> <p>Additionally, Accounting Services maintains an ongoing inventory balance of gallons and cost of fuel. Accounting staff have indicated that they will periodically compare Fleet's physical inventory measures to Accounting's inventory balance to determine if the variance is reasonable based on predetermined thresholds.</p> <p><u>Audit Comment:</u> We recommend Accounting Services perform the above described comparison of calculated inventory balance to actual physical inventory balance. When the variance is above their predefined threshold, Accounting Services should work with Fleet management to determine the cause of the variance. Past causes of material variances have included errors in the computer interfaces and problems with fuel pump readings. Accounting Services can provide an independent oversight to help detect such issues in a timely manner.</p>
<ul style="list-style-type: none"> <li>Incorporate all 30 tanks into the fuel reconciliation process (rather than limiting it to the seven largest tanks).</li> </ul>	<p>✓ <b>Completed</b> in the prior period.</p>

<ul style="list-style-type: none"> <li>• Input all fuel purchases into the FuelMaster system, including fuel delivered to power plants and picked up in the Fleet fuel trucks.</li> </ul>	<p>✓ <b>Completed</b> in the prior period.</p>
<ul style="list-style-type: none"> <li>• Utilize the processes within the FuelMaster system to ensure that the calculated inventory balance and the FuelMaster system inventory balances are properly reconciled.</li> </ul>	<p>✓ <b>Completed</b> in the prior period.</p>
<ul style="list-style-type: none"> <li>• Implement a process to test the accuracy of the electronic tank monitoring system.</li> </ul>	<p>✓ <b>Completed</b> in the prior period.</p>
<ul style="list-style-type: none"> <li>• In the FuelMaster system, input the gallons delivered per the invoice (rather than the gallons delivered per the Veeder-Root system).</li> </ul>	<p>✓ <b>Completed</b> in the prior period.</p>
<ul style="list-style-type: none"> <li>• Reassess the controls over fuel inventories at the department-specific tanks and provide guidance regarding controls that need to be implemented.</li> </ul>	<ul style="list-style-type: none"> <li>◦ <b>Not completed.</b> DMA resources are limited and other priorities have delayed this from occurring. DMA staff plans on revisiting this issue in the future after system upgrade and modification plans are decided.</li> </ul> <p><u>Audit Comment:</u> We recommend that Accounting Services perform this assessment as soon as possible to provide guidance to Fleet regarding inventory controls with department-specific tanks. This step is being turned over to management for their resolution.</p>
<p><b>To improve the safeguards over the City’s Fleet fuel inventories</b></p>	
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	<p>✓ <b>Completed</b> in the prior period.</p>
<ul style="list-style-type: none"> <li>• Assign a systems administrator for the system different from the fuel operations supervisor.</li> </ul>	<p>✓ <b>Completed</b> in the prior period.</p>
<ul style="list-style-type: none"> <li>• Assign individual user ids so that there is accountability for actions taken and transactions entered in the FuelMaster system.</li> </ul>	<p>✓ <b>Completed</b> in the prior period.</p>
<ul style="list-style-type: none"> <li>• Implement adequate password management controls within the FuelMaster system.</li> </ul>	<p>✓ <b>Completed</b> in the prior period.</p>

<b>To ensure that the City is consistently filing for all eligible fuel tax refunds</b>	
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	<p>✓ <b>Completed</b> in the prior period.</p>
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	<p>✓ <b>Completed</b> in the prior period.</p>
<b>To ensure that the fuel operations processes are operating as intended and efficiently and effectively</b>	
<ul style="list-style-type: none"> <li>• Update the fuel operations procedures to reflect current operating procedures performed by staff.</li> </ul>	<p>✓ <b>Completed</b> in the prior period.</p>
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	<p>✓ <b>Completed</b> 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 two action plan steps remaining due as of September 30, 2009, one step was completed, and the remaining outstanding step is being turned over to management for their resolution. The outstanding step is for Accounting Services to reassess the controls over fuel inventories at the department-specific tanks and provide guidance regarding controls that need to be implemented.

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

**Appointed Official's Response**

**City Manager:**

I am pleased with the results of this follow-up audit. It reflects the efforts and commitment to internal control over the City's Fleet Fuel Operation. I would like to thank the audit staff, Fleet Management, and Accounting Services for their follow-up and assistance.

Copies of this audit follow-up 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](mailto: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