

Board of County Commissioners  
Fleet Management Department and  
Utilities Department

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**FUEL INVENTORY OPERATIONS AUDIT  
FOLLOW-UP 1  
JULY 23, 2004**

**HERNANDO COUNTY CLERK OF CIRCUIT COURT**  
**Audit Services Department**  
**MEMORANDUM**

**TO:** Terry Yeager, Fleet Management Director  
Kay Adams, Utilities Director

**VIA:** Karen Nicolai, CPA, Clerk of Circuit Court  
Gary Adams, County Administrator

**FROM:** Peggy Prentice, CIA, CISA, Audit Services Manager

**DATE:** July 23, 2004

**SUBJECT:** Fuel Inventory Operations Audit, Follow-Up 1

The Audit Services Department's (ASD) Audit Projects Schedule included a follow-up to the Fuel Inventory Operations Audit issued June 28, 2002. Based upon managements' responses and corrective actions, the ASD has produced the attached Follow-Up Report for your review. The attached report contains the discussion point, recommendation and management response for each of the original report comments. A copy of the report has been forwarded to the Board of County Commissioners as an agenda "correspondence to note" item.

The purpose of the follow-up audit report is to furnish management independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. It is not an appraisal or rating of management.

Although the ASD exercised due professional care in the performance of this follow-up audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud/abuse will be detected. Specific areas for improvement are addressed later in this report.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact me at (352)540-6235 or just stop by my office in Room 201.

**Attachment**

**copy: CLERK OF CIRCUIT COURT:**

Amy Gillis, CPA, Finance Director

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*NOTE: Three Sections in the Original Report were omitted from this report: "Physical Safeguards," "Ordering Fuel," and "Reliability of Financial Statements." These sections did not contain any follow-up concerns.*

**Fuel Inventory Operations Follow-Up Audit**

**ACKNOWLEDGMENT**

## Fuel Inventory Operations Follow-Up Audit

### ACKNOWLEDGMENT

Other minor findings, not included in this report, have been communicated to management and/or corrected during fieldwork. I thank the management and staff for their cooperation.

Fieldwork was performed by:

Barbara Fichter, Internal Auditor, with limited assistance from Peggy Prentice, Audit Services Manager, and BettySue Kautsky, Student Clerk

Management responses were provided by:

Terry Yeager, Fleet Management Director  
Stephanie Burkhardt, Assistant Utilities Director

Management responses were authorized by:

Richard "Dick" Radacky, County Administrator  
Kay Adams, Utilities Director

This report was reviewed by Peggy Prentice, CIA, CISA, Audit Services Manager, and authorized by Karen Nicolai, CPA, Clerk of Circuit Court, on July 23, 2004.

**Fuel Inventory Operations Follow-Up Audit**

**PURPOSE AND SCOPE**

## Fuel Inventory Operations Follow-Up Audit

### PURPOSE AND SCOPE

**PURPOSE:**

Address the Fleet Management and Utilities Departments' corrective action in response to audit recommendations reported in the Fuel Inventory Operations Audit, issued June 28, 2002.

**SCOPE:**

The ASD requested and reviewed managements' responses to the recommendations. The ASD determined whether management implemented corrective actions which effectively addressed the original comments and recommendations. The ASD addressed the Departments' corrective actions, and determined if the corrective actions, implemented partially or fully, were implemented timely and as stated in managements' responses. For each recommendation, the ASD evaluated the corrective action, or lack of the same, under current conditions and determined what corrective action, if any, is still needed.

**SCOPE LIMITATION:**

The Wiscon facility was not tested/reviewed because there were no material concerns identified during the original audit. A site visit was performed during fieldwork to potentially identify any processing/software changes that may have impacted Wiscon's internal control environment. None were identified.

**Fuel Inventory Operations Follow-Up Audit**

**BACKGROUND**

## **BACKGROUND**

Fuel inventory operations has undergone a number of organizational and structural changes since June 2002 which include:

- A reorganization which moved the Fleet Management Division (Fleet) out from under the Purchasing and Contracts Department making it a stand-alone department;
- Fleet moved into the Department of Public Works (DPW) complex; and
- In May 2003, Fleet relinquished its oversight of the Landfill's fuel transaction processing and usage billing functions. The Landfill now has complete responsibility for its fuel inventory from purchase through disposition. The Wiscon and the Landfill facilities' fuel administration functions remain under the direction of the Utilities Department.
- As of July 1, 2004, the Office of Management and Budget (OMB) will relinquish the preparation of quarterly fuel tax refund reports. The responsibility for fuel tax refunds for all three fueling facilities will be transferred to Fleet.

### **FUEL INVENTORY AT THE DPW COMPLEX AND THE WISCON FACILITY**

The fuel inventory at the DPW complex provides fuel services to vehicles within the eastern portion of the County; the Wiscon facility serves the western portion of the County. Both facilities dispense gasoline and diesel fuel from above-ground storage tanks. Fleet has a fueling truck that delivers diesel fuel to off-road vehicles and equipment located throughout the County. This truck has the capacity to hold 900 gallons of diesel fuel which is replenished at the DPW complex.

Fuel inventory operations encompass two primary operational cycles – the fuel inventory cycle and the fuel card cycle.

The fuel inventory cycle responsibilities are shared by Fleet and Utilities. Each facility is responsible for the safety and daily reporting of fuel activities at their respective sites, including recording and reporting of daily fuel transactions. Fleet is responsible for downloading and processing fuel transactions from the DPW and the Wiscon facilities. Fuel dispensed from these facilities is processed and reported by Fleet, and user departments are billed for usage. During 2003, Fleet completed the implementation of Fleet Anywhere software and updated its electronic processing of fuel activities. Fleet Anywhere was renamed by the software company and it is now named Fleet Focus.

Fuel cards are created, distributed, and tracked by Fleet. Two fuel cards are required for an authorized user to dispense fuel (a vehicle fuel card and a personal fuel card) at the DPW and Wiscon facilities, users must swipe both cards at the pump to activate the automated fuel pump controls. All licensed County vehicles and equipment are assigned a vehicle fuel card at the time

## **Fuel Inventory Operations Follow-Up Audit**

they are placed into service. Personal fuel cards are issued per departmental request. Personal and vehicle cards are also assigned to the City of Brooksville, the District 5 Medical Examiner, the Hernando County Sheriff's Office employees, and the Hernando County Fair Association.

During FY 2002/03, approximately 879,000 gallons of gasoline and diesel fuel was dispensed from the DPW and the Wiscon facilities.

### **FUEL INVENTORY AT THE LANDFILL FACILITY**

The Landfill provides fuel services to Solid Waste & Recycling Division vehicles and equipment. The Landfill dispenses gasoline and diesel fuel from above-ground storage tanks. A fueling truck delivers diesel fuel to off-road vehicles and equipment at the Landfill and two transfer stations. This truck has the capacity to hold 90 gallons of diesel fuel which is replenished at the Landfill facility. The Landfill is responsible for the safety and daily reporting of fuel activities at its site, including recording and reporting of daily fuel transactions. Fuel is dispensed, processed and reported by the Landfill. Users dispensing fuel at the Landfill manually record their usage on a daily log. Fueling does not require a fuel card, and automation is not utilized to record usage.

Between May 1 and September 30, 2003, approximately 40,000 gallons of fuel was dispensed from the Landfill facility.

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**EXECUTIVE SUMMARY**

## **EXECUTIVE SUMMARY**

### **FLEET MANAGEMENT**

Standard operating procedures (SOPs) are written in guidebook format. Management can enhance SOPs by including clear directives and incorporating all fuel administration and operations primary functions (refer to Appendix A).

The fuel administration process requires coordination with other departments, including communicating a clear delineation of responsibilities between Fleet, the Wiscon facility, user departments, Human Resources and Risk Management. Communication and coordination may improve with occasional meetings held with user departments and the distribution of the appropriate SOPs.

Management implemented effective manual monitoring controls regarding the fuel card process and fuel inventory reconciliations. However, the internal control environment should be reviewed to determine which automated controls may better separate incompatible duties (*see also Appendix B*). But the ASD acknowledges that full separation of incompatible duties is not feasible due to staffing levels. recording, reporting and reconciliation of fuel inventory transactions should be segregated as much as is reasonably feasible. Preventative controls regarding surplus vehicle fuel cards should also be implemented to capture and destroy fuel cards as vehicles designated for surplus.

Management implemented new software (Fleet Focus) that appears to have improved fuel inventory record keeping and reporting practices. Using the cost/benefit approach, management should further investigate the feasibility of integrating external fuel administration systems into this new software. As a means of increasing efficiency and effective, management should seek additional training in the use/application of this software.

As of September 30, 2003, Finance materially reconciled the general ledger fuel inventory balance to the physical inventory. However, it does not appear that quarterly reconciliations are performed between Fleet and Finance. On a quarterly basis, Fleet reconciles their physical inventory to their electronic records and “plugs” any non-reconciling differences. Since fuel inventory system records are neither used as a monitoring control nor as a basis for reconciliation with Finance, it appears that reconciling physical inventory to Fleet Focus adds little, if any, value. The value is in reconciling physical inventory to Finance records. In addition, a lack of historical fuel inventory data prevents the ASD from drawing an opinion as to whether the data used for reconciliations is accurate or reliable.

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The off-road fuel truck process lacks management's oversight and continuous monitoring controls. The ASD did not identify manual or automated controls that safeguard the inventory on the off-road fuel truck. For the three-month period ending December 31, 2003, the off-road fuel truck's ending inventory balance was recorded at exactly 844.4 gallons each day. Since the truck holds 900 gallons of fuel, the likelihood of having an ending balance of exactly 844.4 gallons each day is improbable. These amounts do not impact the off-road fuel truck financial recordkeeping. Based upon cost/benefits, management should consider implementing more effective manual and/or automated controls.

The Fleet's usage reports do not provide accurate detail to support fuel charges incurred. Summary and detail usage charges do not reconcile. Management is considering an electronic billing system for fuel usage. Prior to implementing this system, management should test the existing reports' to determine whether the reporting practices provide reasonable assurance that reporting is accurate and complete.

### UTILITIES DEPARTMENT

In May 2003, the Landfill's fuel administration function was transferred to the Utilities Department. Thereafter, management enhanced SOPs that address approval, timeliness and responsibility of tracking, recording, and safeguarding of the Landfill's fuel inventory. There appears to be adequate separation of duties regarding fuel administration, but inventory reports are not authorized by management.

Reasonable measures are taken to ensure that fuel usage is accurately adjusted due to inaccurate fuel pump meters. However, the Department's SOPs regarding the maintenance and repair of fuel pump meters lack guidance.

The Landfill's manual fuel measurement controls appear adequate. Stick measurements appear to be accurate, and record keeping practices provide reasonable assurance that reporting is accurate and complete.

Reconciliations are performed monthly between the Landfill's financial records and the physical fuel inventory before forwarding reports to Finance.

**Fuel Inventory Operations Follow-Up Audit**

**DISCUSSION POINTS,  
RECOMMENDATIONS AND  
MANAGEMENT'S RESPONSES**

## **FLEET MANAGEMENT - ORGANIZATION AND STRUCTURE**

### **POLICIES AND PROCEDURES**

**Discussion Point #1 - June 2002:** Fleet Management has addressed a prior audit comment (see Fleet Management Assistance Program Consultation Paper, issued April 5, 2000) by starting an internal standard operating policies and procedures (SOPs) manual whose purpose is to provide guidance in the performance and authorization of fuel inventory operations. Implementation of the completed SOPs is a step in the right direction. The manual has written procedures and objectives and is evolving; additional SOPs are needed to complete the process.

**Recommendation - June 2002:** To encompass good internal controls, management should evaluate and strengthen the manual. SOPs should formally provide guidance for approval, timeliness and responsibility of tracking, recording, and safeguarding the fuel inventory. Other areas of risk of potential loss of income, inventory or interruption of operations in the event of employee turnover or absence should also be formally addressed. The reconciliation of fuel inventory records to other reporting records should be documented. All forms and reports referenced in the SOPs should be included as exhibits. Policies written to comply with rules, regulations or ordinances should be referenced. Strong SOPs assure timely and complete records and strengthen internal controls.

**Management Response - June 2002:** Fleet agrees that the implementation of the SOPs is only in its infancy and needs to be strengthened and more detailed to provide step-by-step guidance. Our system is currently undergoing constant change and the evolution from the old system to new one is not yet complete. When the change is complete and we know how everything works, the policies will be changed to incorporate the changes.

**Management Response - April 2004:** The new Fleet program is fully operational. The SOPs have been updated with the new procedures.

**Follow-up Discussion Point - May 2004:** The SOPs have been updated. Other SOPs have not been developed.

SOP #4, "Gasoline and Diesel Fuel Accountability" was revised to address processing changes created when Fleet implemented Fleet Focus. This policy is a list of detailed instructions on the processing of fuel inventory transactions, and addresses the timeliness of tracking and recording fuel inventory.

The SOPs lack management's authorization by signature. Some forms referenced in the SOPs are not up-to-date while other forms are not exhibited. The SOPs do not provide clear guidance as to who is responsible for performing a function, when that function should be performed, or management's oversight and approval requirements. The SOPs do not address

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all of the primary functions performed during the fuel inventory and fuel card life cycles.

**Follow-up Recommendation - May 2004:** There are considerable differences between an instruction guidebook and a SOP manual. An instruction guidebook lists step-by-step instructions on how functions are performed. A SOP manual defines management directives and sets the tone for how tasks are to be achieved, the delineation of responsibility, decision points, and monitoring and preventative controls. A SOP manual also exhibits any documents or forms that may assist the reader.

Consideration should be given to enhancing the SOP manual to ensure that management's directives are clearly defined and that all primary functions are adequately addressed including, but not limited to: fuel deliveries; fuel measurement; fuel reporting; inventory adjustments and reconciliation; off-road fuel truck operations, personal and vehicle fuel card cycle; billing procedures for department fuel usage; and management approvals. (*Refer to Appendix A*)

**Discussion Point #2 - June 2002:** Fuel administration staff have not been adequately trained to ensure the accuracy of reporting and reconciling methods. The facilities have different daily, weekly, and monthly purchase and disposition reporting methods. There is a lack of consistency. The SOPs do not clearly identify staff's and management's oversight, authority and decision point roles.

**Recommendation - June 2002:** To assist fuel administrators in meeting their objectives, management should provide them with clearly written policies, standardized forms, and approved reporting methods for each facility. Taking into consideration required reporting methods for aboveground or belowground storage tanks, forms and processing should be standardized as much as possible so that the procedures are consistent. The policies should address the procedure of consolidating each facilities' reporting into one database and comparing the results to the Finance records. Proper handling and approval of non-reconciling differences in reporting fuel shipments, disposition, and inventory on hand should also be addressed. The policies should address the vehicle and personal fuel card life cycle. Management's and staff's authority and decision point roles should be clearly denoted.

Consideration should be given to discussing specific fuel reporting and measurement deficiencies with the fuel administrators, then designing policies and procedures that address these concerns. The SOPs should be distributed to each fuel administrator so that all the facilities are performing work duties and reporting as uniformly as possible.

**Management Response - June 2002:** The issue of addressing the reconciliation of fuel differences was started the end of April. Stick readings will be reconciled to the computer balance on a quarterly basis. The third quarter will be reconciled on June 30<sup>th</sup> and quarterly henceforward.

Some items have already been standardized between the three different facilities. The policies

## Fuel Inventory Operations Follow-Up Audit

and procedures will be standardized with the implementation of the Fleet Anywhere software. Implementation is expected to be completed this FY.

Fleet will meet with OMB and Finance to decide how to approach the reconciliation of Fleet records to the financials. OMB is basically accomplishing this process as they file for tax refunds. Fleet will meet with all parties to approach a plan for the reconciliation of the financials to fleet records for FY 02/03.

**Management Response - April 2004:** Quarterly adjustments to Fleet and Wiscon fuel tanks are done, signed and dated by the Fleet Director and submitted to the Finance Department.

A meeting was held with Finance, OMB and Fleet to decide the best method of reconciling the fuel records. It was decided that OMB would compile a quarterly report monitored by Finance.

**Follow-Up Discussion Point - May 2004:** The Wiscon facility is responsible for processing, documenting and reporting fuel transactions that eventually merge with Fleet's transactions. Fleet has not circulated fuel-related SOPs to the Wiscon facility.

Distribution of SOPs to departments that utilize fuel inventory is lacking. User departments are responsible for the authorization of fuel cards. Human Resources and Risk Management are responsible for communicating with Fleet regarding personal fuel cards. Fleet is responsible for communication with these departments as well as the tracking, recording and safeguarding of personal and vehicle fuel cards, but has not circulated SOPs to these departments. User departments are not consistently returning fuel cards to Fleet as employees terminate employment or become ineligible to drive County vehicles.

As of July 1, 2004, the OMB will no longer process quarterly fuel tax refunds. This process will be assumed by Fleet for the three fueling facilities, making the original concern obsolete.

**Follow-Up Recommendation - May 2004:** Fleet has the responsibility of coordinating with other departments to ensure that the fuel inventory process is carried out efficiently and effectively. As such, SOPs that provide clear delineation of responsibilities between the Wiscon facility, user departments, Human Resources and Risk Management, and Fleet are needed. To communicate and coordinate with these departments, consideration should be given to creating and circulating the appropriate SOPs. An acknowledgment of receipt that departments have received and reviewed the established policies should also be implemented. Management might also consider holding periodic coordination meetings with applicable departments. If written policies are established and distributed, and occasional meetings are held, cooperation and coordination may improve.

In implementing the quarterly fuel tax refund process, management should consider developing SOPs for administering the quarterly tax refund reports, i.e., segregation of duties, reconciliation, and approval of the quarterly tax reports to other inventory reports.

## **Fuel Inventory Operations Follow-Up Audit**

Management should also consider establishing a clear delineation of responsibilities between Fleet and the Utilities, Purchasing and Finance Departments to ensure that information related to the quarterly filings is received in a timely manner.

## Fuel Inventory Operations Follow-Up Audit

### INTERNAL CONTROLS

**Discussion Point #1 - June 2002:** Fleet is responsible for coordinating, data processing and reporting fuel inventory. There appears to be a lack of segregation of duties. One employee records and reports Fleet fuel transactions and also data inputs and maintains automated records for the Fleet, the Wiscon and the Landfill facilities. This employee also issues, maintains records on, and safeguards personal and vehicle fuel cards for user departments. Management has not taken an active role in monitoring the fuel inventory and fuel card function or in oversight of the safeguarding of the fuel inventory.

**Recommendation - June 2002:** Separation of duties is the first line of defense for the prevention, detection, and correction of errors, omissions, and fraud. The objective is to ensure that no single person has complete control over a transaction throughout its initiation, authorization, recording, processing, and reporting. If the total risk is acceptable, then two different functions can be combined. If the risk is unacceptable, the two functions should not be combined. In small departments, separation of duties can be accomplished with adequate monitoring and preventative controls.

Fleet has a small, one person, clerical staff so segregating job duties among staff is limited. To accomplish segregation of duties, management should take an active role in monitoring the fuel inventory and fuel card process. Consideration should be given to implementing authority and decision point controls into key processing functions. For example, management may require authorizations of new or replacement fuel cards, oversee edit changes in the DSI database, GASBOY or other systems, and to review exception reports, inventory transaction reports and other inventory evaluation reports. Management should be required to review and approve exceptions and non-reconciling differences. Adequate management oversight and approval controls will ensure that work is performed completely, accurately, and timely, and that errors, omissions, and fraud are identified.

**Management Response - June 2002:** An exception report can be developed to target cards that are replaced more often than the norm and these cards would need departmental approval. Whenever possible, Fleet will implement controls and segregate the duties of controlling the creation of fuel cards. Each fuel card created will be signed off by management.

**Management Response - April 2004:** To ensure that a separation of duties could be realized, Fleet created a new position - Operations Supervisor and added a Data Entry position in February 2003. The Operations Supervisor has been training the Data Entry position in all aspects of the fuel system. The additional staff person allows Fleet to separate the job duties and create oversight in dealing with fuel issues.

Fleet has instituted a new procedure in the creation and distribution of personal and vehicle fuel cards. Each County Department has a sign off log for vehicle and personal fuel cards. As personal and vehicle fuel cards are picked up at Fleet, individuals are required to sign the associated Departmental log that the cards were received. The Data entry position encodes

## Fuel Inventory Operations Follow-Up Audit

both vehicle and personal cards with the required information, but cannot activate the cards into the fuel system. The Operations Supervisor activates the cards when they are entered into the Gas Boy system and that system is only accessible through the supervisor's computer. Only then are the cards active and this operation creates the sign off by supervision.

**Follow-Up Discussion Point - May 2004:** Three effective controls were implemented:

- 1.) Fleet requires written requests for new or replaced fuel cards;
- 2.) Users are required to sign for fuel cards issued; and
- 3.) Fleet's management reviews and approves quarterly fuel inventory reconciliations.

Although Fleet increased its clerical staffing level, incompatible duties pertaining to recording, reporting, and reconciling fuel inventory transactions are not segregated.

The off-road fuel truck process lacks management's oversight and monitoring controls. In addition, the keys that operate the fuel pump used to refuel the off-road fuel truck are not secured. The truck driver has direct access to these keys.

**Follow-Up Recommendation - May 2004:** Consideration should be given to reviewing the internal control environment to segregate, as much as is reasonably feasible, incompatible job functions. (*See also Appendix B - Example of Segregation of Duties Matrix*)

Until the off-road fuel truck is either replaced or the meter is repaired, consideration should be given to implementing monitoring and detection controls that provide a higher level of assurance that recording practices are accurate and complete. For example, regular reviews of the off-road fuel truck's transaction records for reasonableness will help to detect errors or irregularities. Access to the fuel pump's keys should be secured.

## **FLEET MANAGEMENT - FUEL CARD LIFE CYCLE**

**Discussion Point #1 - June 2002:** The Fleet Driver Card listing (of personal fuel cards) reviewed, is unreliable. This list denoted duplicate cards assigned to single drivers and inactive employees. The list also denoted financial department numbers that have since been changed. Fleet staff cited that they are not notified timely or completely of terminations of employment or when an employee becomes unauthorized.

Based on observations, the inactive personal and vehicle fuel cards are not stored in a controlled environment and the procedure for issuing these cards is not adequately supervised.

Fleet Management does not appear to maintain adequate records of vehicle fuel cards throughout their life cycle.

**Recommendation - June 2002:** Fleet Management began implementation of the Fleet AnyWhere fuel tracking software on May 1, 2002. Since May 1, 2002, implementation has been placed temporarily on hold. During fieldwork, staff indicated that Fleet AnyWhere software is capable of tracking personal and fuel cards through their life cycles (issuance, replacement, inactivation) and in maintaining financial department numbers of at least five digits. Once implemented, fuel cards should be tracked through automation and the financial department numbers should be brought up to date.

To ensure the safeguarding of personal and vehicle fuel cards consideration should be given to implementing a combination of the following:

Fleet Management should reasonably ensure that user departments understand their role in forwarding personal fuel cards to Fleet Management when an employee terminates employment or when an employee becomes unauthorized to use a card. If user departments do not capture the card, the employee's supervisor should communicate the need to inactivate the card with Fleet Management to ensure discontinuance of use.

At least annually, Fleet Management should send an active personal fuel card list to user departments for their review and approval. Any reported concerns or inconsistencies should be handled appropriately.

On a quarterly basis, Fleet Management should obtain a list of terminated BCC employees from the Human Resources Department. The terminated list should be compared to the current Fleet Driver Card listing (of personal fuel cards). Discrepancies between the two lists should be handled appropriately.

Risk Management should be required to notify an employee's supervisor upon identifying an employee who, due to insurance concerns, is no longer authorized to drive/operate County owned vehicles or equipment. Upon obtaining this information, the supervisor should communicate with Fleet Management. Fleet Management should document the supervisor's determination as to whether this employee's personal fuel card should be inactivated.

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When a vehicle is removed from service and processed through Fleet Management, the vehicle's fueling card should be immediately coded inactive, even if the card is not captured.

**Management Response - June 2002:** Fleet will send a list of cardholders to each department yearly and request that all persons that are no longer employed or in need of a card is removed.

Fleet feels very strongly that it is not Fleet's position to police the personal fuel card issue. Individual departments are in a better position to monitor which of their employees' need or no longer need an active fuel card. The Human Resources department could collect personal fuel cards from employees who are leaving County employment at the same time they collect other County effects.

The list of cardholders will be sent out at the end of this FY.

**Management Response - April 2004:** All Departments have been asked to notify Fleet when employees are terminated. Human Resources sends Fleet an e-mail of all terminations and the effective date as they occur. Fleet checks the personal gas card file, and if the person has been issued a card, it is inactivated at the date of termination. There is a report that displays all of the personal fuel cards that are active. Currently, Central Fueling is asking that all user departments update their employee lists. In this manner, all cards that are no longer valid can be locked out of the GASBOY system. Once the cards are locked out of the system, they are invalid and will not activate the fuel pumps. When a card is cancelled, the department number of the card is changed to the Central Fueling Dept (#8011) and that number is not used again. As vehicles are surplus, the vehicle card is locked out of the GASBOY system and no fuel can be issued to the vehicle.

When the cards, both personal and vehicle, are encoded the number encoded stays on the screen after the coding process. In this manner, the cards are double checked for data keying errors. Each card is double checked for proper encoding by accessing a card reader screen. The card is inserted into the encoder and information on the card is read and displayed. This is how each card is double checked for proper encoding.

A list of cardholders is sent to each department at least annually for the departments' to update with any additions and subtractions. Once the lists are received from the departments, all necessary adjustments are handled appropriately. The City of Brooksville forwards updates of personnel changes throughout the year. They annually receive an updated card listing from Fleet for each of their departments to assist with their corrections and record keeping.

Risk Management sends Fleet an updated list of all personnel who are prohibited from driving County vehicles. This list is received at least annually.

Unlike the old DSI tracking system, the new Fleet Program allows the capability of locking out both personal and vehicle gas cards.

## Fuel Inventory Operations Follow-Up Audit

**Discussion Point - May 2004:** Management's corrective action reasonably ensures the accuracy and reliability of personal and vehicle fuel card data. Vehicle fuel card data is tracked throughout the life cycle in Fleet Focus. Fleet implemented the following monitoring controls:

- User departments are periodically sent a list of their active personal fuel cards. They are requested to review the list for accuracy and then respond.
- Human Resources sends Fleet terminations of employment data.
- In 2004, Fleet requested from Risk Management a list of ineligible drivers identified by the County's insurance carrier. This information is not yet available.

Surplus vehicle fuel cards are sometimes not captured until after the vehicle has reached the surplus yard. Generally, these cards are not returned to Fleet. Vehicle fuel cards are destroyed when deactivated.

**Follow-Up Recommendation - May 2004:** Consideration should be given to implementing a control whereby cards are captured and destroyed by Fleet at the same time that the vehicle is processed for surplus.

## **FLEET MANAGEMENT - FUEL VALUATION**

**Discussion Point - June 2002:** The OMB obtains fuel tracking information from the facilities and from Purchasing. Based on this information, OMB prepares a quarterly tax report which denotes the beginning balance, purchases, disposition and ending inventory for all facilities. Although OMB has access to Finance records they do not reconcile their records to the general ledger. Fleet does not reconcile their records to the general ledger either. Finance performs a reconciliation of the general ledger to inventory measurements at fiscal year end. The Finance Department's reconciliations have identified material reconciliation differences during each of the past four fiscal year ends. (See details in the Reliability of Financial Records section below.)

**Recommendation - June 2002:** To ensure that Fleet's, OMB's and Finance's financial records reconcile to one another, a comparison of these records should be performed at least quarterly. The reconciliation should include a comparison of actual inventory to OMB records and a conversion of gallons to cost which should be compared to the general ledger's fuel inventory account.

Because OMB currently obtains Purchasing's and each fuel facilities' records and has access to financial records (of OMB, Fleet Management and Finance), OMB is in the best position to provide appropriate check and balance oversight. In addition, because OMB already consolidates the records, it should take only a few minutes to reasonably ensure that the records materially reconcile. OMB should communicate any material discrepancies with Fleet and Finance for corrective action. It should be noted that during fieldwork, OMB voiced objection to being given this function.

**Management Response - June 2002:** Fleet will meet with Finance and OMB to discuss the setting up of a process by which the Fleet can reconcile to the financials. The reconciliation process should be in place during FY 02/03.

**Management Response - April 2004:** Fleet reconciles with OMB's figures on a quarterly basis, which is then forwarded to Finance. If any discrepancies occur, they are worked out between Fleet and OMB or OMB and Finance.

The Fleet Department is no longer part of this process. The Division orders fuel directly through Purchasing and Contracts. As stated in the prior Management Response, the Division's Finance Coordinator forwards information to the Finance Department for inventory reconciliation. The Facility Attendant Foreman forwards a copy of the Fuel Delivery Record and copies of the actual invoices from the fuel company to OMB for the reporting of sales tax. OMB also receives a copy of the Fuel Usage Report monthly.

**Discussion Point - May 2004:** As of July 1, 2004, the OMB will no longer process quarterly fuel tax refunds. This process will be assumed by Fleet for the three fueling facilities, making the original concern obsolete.

At fiscal year end, Finance reconciles the general ledger fuel inventory balance to the physical inventory (by converting gallons to dollar value). On a quarterly basis, Fleet

## Fuel Inventory Operations Follow-Up Audit

reconciles their physical inventory to Fleet Focus and “plugs” any non-reconciling differences. Once complete, Fleet forwards a copy of this reconciliation to Finance. Fleet does not reconcile to Finance’s financial records. Due to a lack of historical data, the ASD draws no opinion as to whether the Fleet Focus data used in this reconciliation is accurate or reliable.

Since Fleet Focus inventory records are neither used as a monitoring control nor as a basis for reconciliation with Finance, it appears that reconciling physical inventory to Fleet Focus adds little, if any, value. The value is in reconciling physical inventory to Finance’s financial records.

**Recommendation - May 2004:** To ensure that Fleet’s fuel records and Finance’s general ledger (fuel inventory account) reconcile to one another, a comparison of these records should be performed at least quarterly by the Finance Department. The reconciliation should include a comparison of actual inventory (in gallons) and a conversion of gallons to cost.

Consideration should be given to using the reconciliation between the physical inventory and Fleet Focus as a monitoring control. The practice of “plugging” any non-reconciling differences does not identify problem areas or help to detect errors or irregularities.

### FLEET MANAGEMENT - FUEL INVENTORY CYCLE

#### REPORTING AND ACCOUNTABILITY

**Discussion Point - June 2002:** Material discrepancies were identified when comparing one period's ending balance to another periods beginning balance across reporting mediums (i.e., general ledger, fuel facilities, DSI). The most significant errors were due to DSI program coding errors and end-of-month and/or year adjustments. However, other less notable discrepancies were also identified. Because the reporting inaccuracies were applied for several years, it appears that fuel financial recording practices do not include techniques to identify problem areas evident in the information disclosed.

Three types of DSI program errors were identified during testing. First, when coding errors that effected user charges for fuel pumped at the Landfill facility were identified during fieldwork, Technology Services took immediate corrective action to remedy the situation. Second, the obsolete department numbers used to track personal fuel cards, have not been corrected. Third, based on testing, it appears that the amount charged to users for fuel usage plus a surcharge does not reconcile to the cost of fuel purchased. This coding or data input error has not been corrected. Based on communications with Technology Services and Fleet Management staff, it does not appear that the DSI program should be updated since the DSI program is being phased out. Fleet Management has purchased and is in the process of implementing Fleet AnyWhere software that will take the place of DSI for fuel tracking purposes. Implementation began on May 1, 2002, but has been placed temporarily on hold. The correct department numbers should be updated in the Fleet AnyWhere program.

Differences in the DSI reports make reconciliation of the reports difficult. Some reports pull information from the data input date while others pull information from the accounting period. The City of Brooksville's fuel transactions are listed on some reports and not on others. Per Technology Services some reports are designed to capture only elected official transactions. Nevertheless, this is confusing and makes it very difficult to ensure that the reported data reconciles from one reporting medium to another. Because the DSI fuel tracking module is being phased out, corrective measures in the DSI program are not required.

Some vehicles' transactions were located in the reports under two different department locations. Some vehicles had mid month changes in "ownership," whose total usage transactions were reported by different departments rather than partial period data reported by each department or all transactions for the month reported by just one department. If a vehicle changes "ownership" mid month, the new owner is charged for the full month's usage. Because the DSI fuel tracking module is being phased out, corrective measures in the DSI program are not required.

Some vehicles were coded as surplus vehicles in Technology Services' records but are active per Finance and Fleet records. The DSI system does not have adequate data integrity controls. Vehicles that are in surplus can be charged with fuel usage. Technology Services does not print a report or communicate these exceptions with the appropriate individuals. Without adequate follow up, there may be unidentified fraud or abuse. Because the DSI fuel tracking module is being phased out,

## Fuel Inventory Operations Follow-Up Audit

corrective measures in the DSI program are not required.

**Recommendation - June 2002:** Consideration should be given to implementing automated and manual controls that ensure that data input and reporting errors are identified. These automated controls should also prevent the usage of surplus vehicle cards. On a monthly basis, automated exception reports should be reviewed so that coding errors and non-reconciling differences can be easily identified. Facilities' reported inventory balances should be compared to Fleet AnyWhere records.

**Management Response - June 2002:** Fleet agrees with the assessment that the DSI system was the main problem with the accuracy in reporting. The DSI system will no longer be used and will be replaced with the Fleet Anywhere software.

Obsolete department numbers have all been deleted from the Fleet AnyWhere system to correct the purity of the data, but the surplus vehicle cards cannot be deleted from the system. When a vehicle is surplus, the card is removed and destroyed by Fleet Management.

Fleet is implementing the fuel-tracking module in Fleet Anywhere and should be complete this FY.

**Management Response - April 2004:** Presently, the old DSI system, now called the Lion Program, is only used to maintain Gas Card Driver Information, i.e., card number, driver name, department and status of card.

The new GASBOY fuel system has improved and added features. This system has the ability to disable vehicle cards as well as personal cards. The old DSI system would not allow the disabling of vehicle cards. Once a card is disabled, it cannot be used to access the GASBOY System for fueling purposes.

The Fleet Focus software program is another management tool for control and monitoring of the fuel system. Once a vehicle is placed in a surplus status, the program will not allow fuel to be posted against the vehicle's account. If an attempt is made to post fuel against the surplus vehicle, the program will reject the transaction. This creates a flag that immediately pinpoints the problem, which demands corrective action. Transfers are done once a week and any problem flagged is researched and corrected. This process also includes Wiscon transfers.

The automated and manual fuel transactions are checked on a regular basis. The automated fuel transfers have a screen that pinpoints rejected transactions. At the time of the transfer, these items are addressed and corrected. When fuel is received and posted into the system, the information is manually written into a log of all transactions - both receipts and usage. The GASBOY paperwork shows the total number of gallons dispersed from each pump from each location, the Wiscon Facility and the Fleet Facility. The tank balances are checked with our manual log to ensure they are in balance.

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**Discussion Point - May 2004:** Based upon a review of automated and manual processes, it appears that some controls have been implemented. For example, Fleet implemented Fleet Focus software which appears to have improved Fleet's fuel inventory record keeping and reporting practices. At the 2002/03 fiscal year end, the fuel inventory on hand materially reconciled to the general ledger. Based upon testing, it appears that the vehicles active in Fleet Focus are also active in the Finance records. No surplus vehicles were identified in the Fleet Focus records.

There are three separate automated systems used to manage the fuel card life cycle (Fleet Focus, LION, and GASBOY). Based upon communications with the Fleet Focus vendor, this software is able to manage the entire fuel card process. Modification and/or elimination of the two other systems may be feasible.

**Recommendation - May 2004:** Using the cost/benefit approach, consideration should be given to integrating LION and GASBOY data into Fleet Focus.

### IMPLEMENTATION OF FLEET ANYWHERE (FLEET FOCUS) FUEL TRACKING

**Discussion Point - June 2002:** During fieldwork, Fleet Management indicated that when Fleet AnyWhere software is fully implemented, the Manager of Fleet Management and the clerical staff person will have the same access and user rights. This raises automated security concerns.

Similar to the checks and balances implemented in manual processes, information system security depends on management and staff to understand and carry out automated security procedures. Security of the automated fuel inventory data means both the protection of information while it is within the database and the assurance that the software does exactly what it is supposed to do and nothing more. Information system security entails management controls to ensure the integrity of operations, including such matters as proper access to the information systems and proper handling of input and output. In this sense, security of information systems is first and foremost a management issue and only secondly a technical problem of computer security.

**Recommendation - June 2002:** Consideration should be given to determining what level of access, change control rights, and report writing security access controls (access options) are appropriate for management and for staff. Once determined, management should ensure that adequate automated controls are implemented. Automated access controls not only secure data but also ensure integrity of reports.

**Management Response - June 2002:** Fleet will give consideration to the level of access granted each individual. The system is currently still under development and its full utilization has not been achieved. When the system becomes completely operational - policies, procedures and access rights can then be determined. During FY 02/03, system implementation should be completed.

**Management Response - April 2004:** This is not a module, but an integrated part of the

## Fuel Inventory Operations Follow-Up Audit

overall fleet programming. Splitting access levels is difficult, but has been segregated with as many controls and safeguards as possible and still function efficiently. The Data Clerk has access to all view screens, the ability to insert information into the equipment, Fluids, Fuels Parts Orders and Work Order screens. The only update screen that can be accessed is work orders. The Supervisor has the ability to view every screen and update the following: equipment, fluids, part orders, parts stocking, tools, vendors and work orders. This position cannot copy or delete any items or functions. The Fleet Director has access to the entire system.

**Discussion Point - May 2004:** Generally, user rights were granted at specific access levels but the specific rights authorized do not consistently reflect the work performed and do not provide for a strong internal control environment.

Fleet Focus contains a custom report generator and has the ability to provide audit trails that list new entries and changes to the system. Staff cited that their knowledge of generating reports is limited to what was created by the software vendor during implementation/setup. Staff continues to utilize manual tracking logs and reports. Fleet is considering the purchase of additional report-writing software.

**Recommendation - May 2004:** Consideration should be given to reviewing the internal control environment and determining whether software user access controls would better separate incompatible duties. These access rights should be based upon each position's job duties. For example, recording new transactions should be segregated from editing or deleting existing transactions.

Prior to management's procurement of additional reporting software, management should first pursue additional training and user instructions. This will allow Fleet to gain additional information on pre-formatted reports available from the system, customized reports, and audit trails. Reports customized to Fleet's needs will enable a number of manual processes to become automated. Training in the use of audit trails may, potentially, assist management with oversight responsibilities. It may also be helpful to contact other Fleet Focus users to gain a broader knowledge of the software's capabilities.

## **FLEET MANAGEMENT - DISPENSING FUEL**

### **OFF-ROAD FUELING TRUCK**

**Discussion Point - June 2002:** Based on communications with Fleet and Wiscon, it appears that each facility has either accuracy testing performed on their fuel pump meters or staff verifies accuracy on a continuous basis. Daily user transactions are tracked and reported by the facilities. Each month, information system reports (GASBOY and DSI) are created that summarize data input. These accuracy tests combined with reporting methods appear to provide adequate data that should identify problem areas. It appears that malfunctioning equipment and significant information system (DSI program) errors were known but action was not taken to correct the problems. For example, the diesel pump meter from the off-road fueling truck are unreliable. Per communications with staff, these meters have been malfunctioning for a significant period of time. The off-road fueling truck's meter has a large variance that fluctuates daily. For the past four fiscal years the Finance Department has made significant year end adjustments to the general ledger's inventory account due to unreliable DSI reports.

**Recommendation - June 2002:** Using a cost/benefit approach, consideration should be given to repairing or replacing the off-road fueling pump's meter and to updating fuel tracking technology for the truck.

To ensure that fuel usage is accurately reported and billed, monthly inventory adjustments caused by the inaccurate meters should be added or subtracted from vehicle usage.

When information systems are malfunctioning, management should take corrective action. By not taking corrective action, the database's output becomes unreliable.

**Management Response - June 2002:** The meter on the fuel truck is mounted on the back of a large heavy-duty truck that drives on bumpy, unpaved back roads. This truck also drives the Landfill to reach our off-road equipment for fueling. This meter has been calibrated for accuracy, but within a few days of traveling over adverse terrain, it is no longer accurate.

The fuel truck is measured daily for a beginning and an ending stick reading. The variance between the meter and the stick reading is adjusted daily by spreading the + or - difference between all vehicles fueled that day. The meter is not the primary source of reconciling the fuel truck inventory - the stick reading is the most accurate reconciliation method.

The pumps at the Landfill have been repaired to correct the pump's totalizer problem. Fleet does not think it would be cost effective to update the technology of these two systems. It would cost from \$30,000 to \$40,000 to update the Landfill's fuel system to a GASBOY type tracking system. The Landfill's fleet consists of only 15 vehicles and I do not see a cost/benefit to the conversion.

Fleet also sees no benefit to outfitting the fuel truck with a computer system. Fleet has

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enough problems keeping a mechanical system working and a computer system would be worse. The fuel truck would also have to carry fuel cards for every vehicle it serviced. This would mean more duplicate cards in the system causing more areas for fraud and theft.

Landfill pumps have been calibrated for accuracy during FY 01/02 and will be checked yearly. Truck accuracy will continue to be determined through stick readings.

**Management Response - April 2004:** The meter on the off-road fuel truck will never stay accurate. This is because of the terrain that the truck is driven through in order to reach the equipment that has to be fueled. The truck meter has been replaced and calibrated several times and does not stay accurate more than a few days due to the pounding that it takes on the back roads and places it is required to go to reach the off-road equipment. The driver uses a stick to check the tank every day. Daily adjustments are made to the vehicles that are fueled. If there are 20 vehicles fueled that day and the fuel balance is short or over, all 20-fueled vehicles get adjusted to balance the fuel.

**Discussion Points - May 2004:** Per management, calibration repairs made to the off-road fuel truck's meter had no lasting affect. Repairs were discontinued because the cost outweighed the benefits received. Management cited that, in a few years when the truck is due for replacement, they may consider replacing the existing flat-bed fuel truck with a truck equipped for dispensing fuel.

The fuel dispensed from the off-road fuel truck appears to be recorded as accurately as is possible. Variances appear to be calculated correctly, applied against vehicle usage and carried through to fuel usage billings. The variances appear reasonable. Material concerns were not identified regarding the accuracy and completeness of recording fuel disbursements/billing for the off-road fuel truck. However, the ASD did not identify any automated processes or monitoring/detection controls that provide a higher level of assurance that recording practices are accurate and complete appear to be lacking.

**Recommendation - May 2004:** Until either the off-road fuel truck is replaced or the meter is repaired, consideration should be given to implementing monitoring/detection controls that provide a higher level of assurance that recording practices are accurate and complete.

**Discussion Point - June 2002:** Fleet's off-road fueling truck's inventories are determined by stick measurements. Test results indicate that these measurements are either performed or reported inaccurately. In addition, the off-road fueling truck's pumps do not require a personal or vehicle fueling card. Due to a lack of reliable record keeping and automated access controls, continuous monitoring controls are vital in the detection of potential fraud and abuse.

**Recommendation - June 2002:** To establish adequate detection and monitoring controls, consideration should be given to ensuring that measurements of fuel inventory are performed and recorded accurately. Any material discrepancy between the physical measurement and the calculated measurement of fuel inventory levels should be addressed. Management's

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oversight should be documented.

**Management Response - June 2002:** Fleet does not see any cost/benefit to outfitting the fuel truck with a computer system. The fuel truck tank is measured daily for a beginning and an ending stick reading. The variance between the meter and the stick reading is adjusted daily by spreading the + or - difference between all vehicles fueled that day. The meter is not the primary source of reconciling the fuel truck inventory - the stick is the most accurate reconciliation method.

The reconciliation of the tank readings is documented and management oversight will also be documented.

The person performing the stick readings was retrained. The re-training was accomplished during FY 01/02 just prior to the audit department bringing this to Fleet's attention.

**Management Response - April 2004:** The fuel truck is measured daily for a beginning and ending stick reading. The fuel is reconciled and adjusted daily. A daily log is kept for all fuel truck transactions and adjustments.

**Discussion Point - May 2004:** It does not appear that adequate detection and monitoring controls were implemented. The end of day stick measurements of fuel in the off-road fueling truck for the three month period ending December 31, 2003, were recorded at exactly 844.4 gallons of inventory each day. Since the truck has a tank that holds 900 gallons of fuel, the likelihood of having an ending balance of exactly 844.4 gallons each day is improbable. Furthermore, these stick measurements are not utilized for any financial or transaction record keeping. Therefore, these stick measurements do not appear to add value.

The off-road fuel truck process lacks management's oversight and monitoring controls. On average, the off-road fuel truck dispenses approximately 9,000 gallons of diesel fuel per month. The daily record keeping is manually recorded by the off-road fuel truck driver. No manual or automated controls were identified that monitor recording practices.

**Recommendation - May 2004:** To establish adequate detection and monitoring controls, consideration should be given to ensuring that measurements of fuel inventory are performed and recorded accurately. Any material discrepancy between the physical measurement and the calculated measurement of fuel inventory levels should be addressed. Management's oversight should be documented.

As a means of enhancing efficiency/effectiveness, consideration should be given to reviewing the off-road fueling truck procedures and tasks performed (e.g., purpose of stick measurements) to identify those tasks that could be streamlined, automated, or eliminated. Incompatible duties should be adequately segregated and sufficient monitoring controls should be implemented to prevent the potential for fraud and/or abuse of County assets. Consideration should also be given to investigating any automated options available that may enhance the efficiency and effectiveness of this process. For example, using the

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cost/benefit approach, if/when the off-road fuel truck is replaced, consideration should be given to implementing automated controls that can provide accurate measurements of fuel when fuel is pumped into the truck and dispensed to off-road vehicles.

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### FUEL VALUATION FOR GENERAL LEDGER AND USER BILLING

**Discussion Point - June 2002:** The price paid per gallon to value the fuel inventory in the general ledger appears to be materially accurate. However, based on test results, the price paid per gallon plus mark up does not materially agree with user billings. The inaccuracies appear to be in the DSI program.

**Recommendation - June 2002:** Because DSI's fuel tracking module is being phased out and Fleet AnyWhere is being implemented, taking action to correct the DSI billing system is not material. Rather, consideration should be given to ensuring that the Fleet AnyWhere program is functioning properly and that staff's handling of the input and output is appropriate.

**Management Response - June 2002:** Fleet will do everything necessary to ensure the Fleet Anywhere program functions properly and that staff appropriately handles the input and output of information. Policies and procedures are under development to ensure the information that is inputted into the system is accurate with all of the appropriate safeguards.

During FY 02/03, the manual will be expanded to include the newer areas of the system as they become utilized.

**Management Response (Part 1)- April 2004:** All input of fuel usage into Fleet's computer system is transferred electronically from the GASBOY computers located at Fleet and Wiscon. These transfers are downloaded into the Fleet Focus fuel program, with the exclusion of the off-road fuel truck.

The Veeter-Root System monitors all fuel deliveries. The fuel receipts are posted to the computer by Fleet using the net gallons on the Bill of Lading as instructed by OMB and Finance.

The fuel pricing comes from the Release Order sent to Fleet from the Purchasing & Contracts Department. The fuel contractor charges a pump off fee of \$25.00 per delivery. This fee is incorporated into the price of the fuel. A .01-cent per gallon fee is added to the diesel fuel to offset the cost of the fuel conditioner added to the fuel. This additive removes water and algae from the fuel.

**Management Response (Part 2) - April 2004:** The Fleet Focus program is functioning properly. The price of the fuel is as follows: The fuel prices are taken from the Release Order sent from the Purchasing and Contracts Department because they order the fuel. The Opis price is posted each week and that is what determines the cost of the fuel. Central Fuel is charged a \$25.00 pump off fee for each delivery. The \$25.00 charge is divided by the total net gallons of the received delivery. This amount is added to the cost of the fuel. There is a 10% administration fee added to the cost of the fuel when it is billed to the Departments. The diesel fuel also has an additional .01 added to the price to cover the cost of the diesel conditioner added to the tank at the time of the delivery. The fuel is billed on an average price that is calculated by the Fleet Focus program. It averages the price of fuel for each

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load of fuel delivered and when the oldest delivery is used up it is dropped from the equation.

The fuel that is posted to the computer inventory and the transfers that bill the fuel to the departments is handled appropriately by staff and is checked and double checked against the manual fuel log to ensure the tanks and log are in balance.

**Discussion Point - May 2004:** Based on test results, the price paid per gallon, plus markup, agrees with user billing. Some concerns were identified with reporting fuel usage billings. Itemized and summarized fuel usage reports are generated from the same software, Fleet Focus.

Per management, itemized reports are sent to user departments. Summarized reports are sent to Finance and usage is charged to the general ledger. Due to timing differences, itemized fuel usage reports do not capture all of the transactions in the month that they occur and are not carried forward or reported in the following month. User departments cannot determine whether actual fuel charges incurred have been accurately charged to their cost center.

Management cited that amounts charged to the general ledger, through department usage billings, are based on summary reports that have the ability to capture all transactions that occur within the month. Although some of the discrepancies between reports may be due to timing differences, the concern is that fuel usage charges may not be accurate and cannot be reconciled.

**Recommendation - May 2004:** Management is considering an electronic fuel billing system for fuel usage. Until such time that this is implemented, consideration should be given to testing the accuracy of data captured and reported for fuel usage. Once accuracy is assured, consideration should be given to ensuring that the itemized and the summarized reports can be reconciled.

## **UTILITIES DEPARTMENT - ORGANIZATION AND STRUCTURE**

### **POLICIES AND PROCEDURES**

**Discussion Point - June 2002:** Fuel administration staff have not been adequately trained to ensure the accuracy of reporting and reconciling methods. The standard operation procedures (SOPs) do not clearly identify staff's and management's oversight, authority and decision point roles.

**Recommendation - June 2002:** Strengthen the internal SOPs. SOPs should formally provide guidance for approval, timeliness and responsibility of tracking, recording, and safeguarding the fuel inventory and include clearly written policies, standardized forms, and approved reporting methods. Management's and staff's authority and decision point roles should be clearly denoted. All forms and reports referenced in the SOPs should be included as exhibits. Policies written to comply with rules, regulations or ordinances should be referenced.

Consideration should be given to designing SOPs that address fuel reporting and fuel measurement. The reconciliation of fuel inventory records to other reporting records should be documented. Proper handling and approval of non-reconciling differences in reporting fuel shipments, disposition, and inventory on hand should also be addressed.

**Management Response - May 2004:** SOPs have been updated and provide guidance for the timeliness and responsibility of tracking, recording and safeguarding the fuel inventory. The Facility Attendant Foreman (FAF) is responsible for the ordering, tracking, recording and reporting of the fuel inventory. The FAF reconciles any discrepancies in the fuel inventory by examining the fuel logs, fuel delivery records and daily stick measurements. The FAF does a weekly and monthly tracking report that makes for a more accurate Fuel Usage Report, which is created during month end paperwork. All forms and examples of reports have been included as exhibits.

Based on the monthly Fuel Usage Report prepared by the Facility Attendant Foreman, the Finance Coordinator prepares the journal entry form that is forwarded to the Finance Department to transfer funds from actual inventory to the Division's fuel line item. Finance Department staff then reconciles the inventory financially.

**Discussion Point - May 2004:** In May 2003, the fuel administration function for the Landfill was transferred to the Utilities Department. Thereafter, management enhanced SOPs that address approval, timeliness and responsibility of tracking, recording, and safeguarding the Landfill's fuel inventory. Examples of forms are included as exhibits. Management also implemented reasonable segregation of duties.

## **UTILITIES DEPARTMENT - FUEL VALUATION**

**Discussion Point - June 2002:** Fuel inventory is measured to ensure that calculated fuel inventory records materially reconcile with actual inventory on hand. There appears to be adequate segregation of duties in the stick measurement procedure at the Landfill facility. However, based on testing, it appears that stick inventory measurements are not performed accurately. Therefore, inventory measurement reports are not reliable.

The OMB obtains fuel tracking information from the facilities and from Purchasing. Based on this information, OMB prepares a quarterly tax report which denotes the beginning balance, purchases, disposition and ending inventory for all facilities. Although OMB has access to Finance records, they do not reconcile their records to the general ledger. Finance performs a reconciliation of the general ledger to inventory measurements at fiscal year end.

**Recommendation - June 2002:** Consideration should be given to providing additional training in the performance of stick measurements and in the conversion of these measurements into gallons.

To ensure that Utilities', OMB's and Finance's fuel financial records reconcile to one another, a comparison of these records should be performed at least quarterly. The reconciliation should include a comparison of actual inventory (stick measurements) to OMB records and a conversion of gallons to cost which should be compared to the general ledger's fuel inventory account.

Because OMB currently obtains Purchasing's and each fuel facilities' records and has access to financial records, OMB is in the best position to provide appropriate check and balance oversight. In addition, because OMB already consolidates the records, it should take only a few minutes to reasonably ensure that the records materially reconcile. OMB should communicate any material discrepancies with Utilities and Finance for corrective action. It should be noted that during fieldwork, OMB voiced objection to being given this function.

**Management Response - May 2004:** Division staff has been instructed to take stick measurements to the nearest eighth of an inch. The measuring stick is inserted into each tank vertically through the original filling port on a daily basis between the hours of 4:00 pm and 5:00 pm.

The Landfill orders fuel directly through Purchasing and Contracts. As stated in the prior Management Response, the Division's Finance Coordinator forwards information to the Finance Department for inventory reconciliation. The Facility Attendant Foreman forwards a copy of the Fuel Delivery Record and copies of the actual invoices from the fuel company to OMB for the reporting of sales tax. OMB also receives a copy of the Fuel Usage Report monthly.

**Discussion Point - May 2004:** Manual stick measurements appear adequate.

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Each month, the Landfill reconciles its financial record to the physical inventory and to Finance. Reconciliation reports are forwarded to Finance.

Effective July 1, 2004, the OMB will no longer process quarterly fuel tax refunds. Fleet Management will be responsible for preparing the quarterly reports on behalf of the Landfill and the two other fueling stations, making the original concern is obsolete.

## **UTILITIES DEPARTMENT - DISPENSING FUEL**

**Discussion Point - June 2002:** The Landfill's pumps do not require a personal or vehicle fueling card. Due to a lack of reliable record keeping and automated access controls, continuous monitoring controls are vital in the detection of potential fraud and abuse.

Based on communications with Landfill staff, it appears that accuracy testing is performed on fuel pump meters and that staff verifies accuracy on a continuous basis. Daily user transactions are tracked and reported. The diesel pump meters at the Landfill facility are unreliable. The inaccuracies were known, but action was not taken to correct the problems. Per communications with staff, these meters have been malfunctioning for a significant period of time. The Landfill's meter has an 8% to 10% variance.

**Recommendations - June 2002:** Using a cost/benefit approach, consideration should be given to repairing, replacing or updating the Landfill's diesel meter.

**Management Response - May 2004:** On June 7, 2002, J&J Equipment replaced and calibrated Diesel meter. The rest of 2002, the new meter was off by 3.26%. In 2003, the meter variance was 3.57%. And from January to April of 2004, the meter variance has averaged 4.31%. The Facility Attendant Foreman and Division Management discussed the variances, and called J&J Equipment to request evaluation of current equipment and recalibration of the Diesel meter. The calibration was done on April 24, 2004. Staff will continue to monitor any meter variances.

**Discussion Point - May 2004:** Reasonable measures are taken to ensure that the methodology used to adjust fuel usage, due to inaccurate fuel pump meters, are accurate. Based upon testing, it appears that variances have been significantly reduced. Staff monitors the extent to which fuel pump meters may require repair. However, there is no guidance included within the SOPs regarding the approximate tolerance level before periodic re-calibration would be required.

There appears to be adequate separation of incompatible duties. However, staff do not initial the fuel inventory reports they create and submit to the Finance Department. These reports are not authorized by management.

**Recommendation - May 2004:** Management should consider establishing SOPs that include maintenance of the fuel pump meters. This could be based upon a variance tolerance that staff could use to determine when a meter repair is required, e.g., the monthly fuel usage adjustment between stick measurements and fuel meter readings. At such time that fuel pump equipment may require updating or replacement, management should also consider the cost/benefit of updating the fuel pump meters with automated sensors or like equipment that would, potentially, eliminate the need for adjustments to fuel usage and enhance the efficiency of fuel tracking and reporting.

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**Discussion Point - June 2002:** The Landfill's fuel inventory is determined by stick measurements. Test results indicate that these measurements are either performed or reported inaccurately. In addition, the Landfill's pumps do not require a personal or a vehicle fueling card. Due to a lack of unreliable record keeping and automated access controls, continuous monitoring controls are vital in the detection of potential fraud and abuse.

**Recommendations - June 2002:** To establish adequate detection and monitoring controls, consideration should be given to ensuring that measurements of fuel inventory are performed and recorded accurately. Any material discrepancy between the physical measurement and the calculated measurement of fuel inventory levels should be addressed. Management's oversight should be documented.

**Management Response - May 2004:** The strengthening of detection and monitoring controls have been addressed in the previous Management responses.

At the advice of the ASD, a modification was made in the way to calculate/justify stick to meter at month end reporting. This method includes taking the variance between stick and meter and placing it back into inventory. (Important Note: The Division dispenses less than meter reads). The Facility Attendant Foreman reconciles any discrepancies in the fuel inventory by examining the fuel logs, fuel delivery records and daily stick measurements on a weekly basis.

Division staff has been more diligent in the monitoring of the meters, logs, and reporting, to ensure that the data is reliable.

**Discussion Points - May 2004:** The Landfill's manual fuel measurement controls appear adequate. Stick measurements appear to be accurate, and record keeping practices provide reasonable assurance that reporting is accurate and complete.

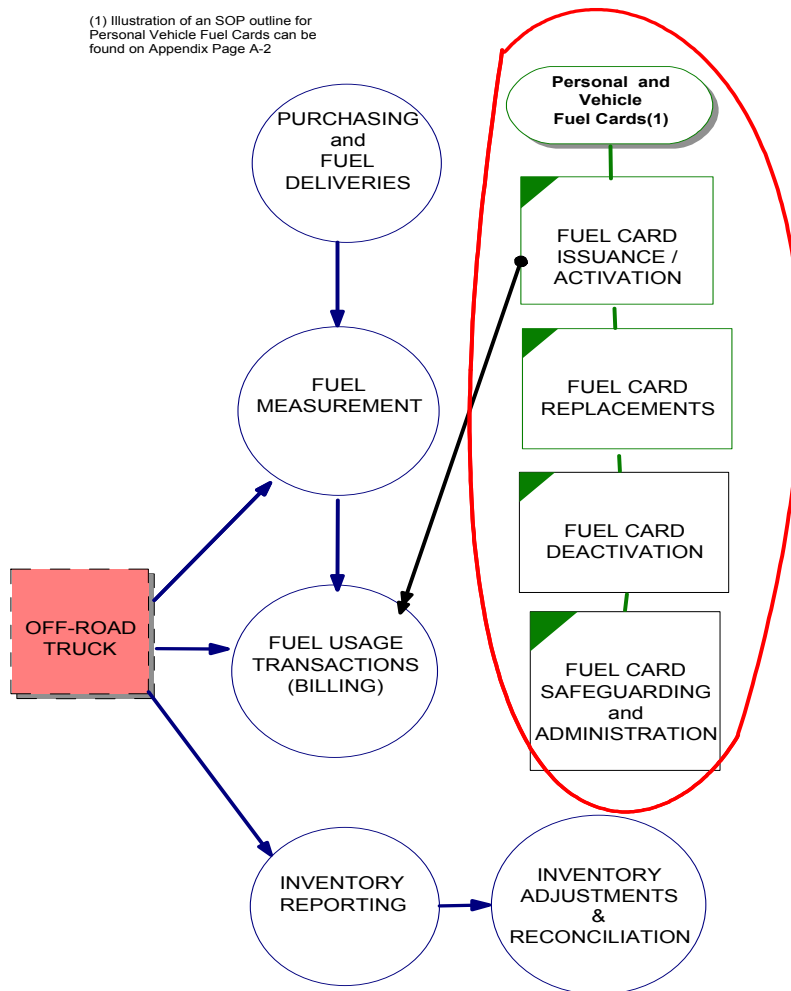
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**APPENDIX A**

# Fuel Inventory Operations Follow-Up Audit

## APPENDIX A - GENERATING NEW SOPs

A department's SOPs generally represent the primary processes of its operations. When developing the content for new SOPs, it is helpful to outline or diagram each primary process of an operation. For illustration purposes, refer to the example below. Each process is outlined or diagrammed according to the tasks and goals that need to be accomplished under a specific function. As an example, the Personal Vehicle Fuel Card functions have been itemized by task/goal (refer to the illustration on Appendix Page A-2). This itemization provides an outline for the content of SOPs.



**PRIMARY PROCESSES OF FUEL ADMINISTRATION AND OPERATIONS**

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**APPENDIX B**

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### APPENDIX B - EXAMPLE OF SEGREGATION OF INCOMPATIBLE DUTIES MATRIX FOR FUEL CARD ADMINISTRATION

**(P = Primary Duty; S = Secondary or Backup; O = Management Oversight)**

*(NOTE: The tasks listed below are for illustration purposes only and may not be all-inclusive)*

Following is an example of how tasks for a process can be assembled and analyzed for compatible duties. Management monitoring or oversight should be substituted wherever separation of incompatible duties is not possible, due to limited staffing.

| Tasks To Be Performed  | Staff Member #1 | Staff Member #2 | Staff Member #3 |
|--|-----------------|-----------------|-----------------|
| Activates personal fuel cards in GASBOY  | P               |                 | O               |
| Activates vehicle fuel cards in GASBOY   |                 | P               | O               |
| Deactivates personal fuel cards in GASBOY  |                 | P               | O               |
| Deactivates vehicle fuel cards in GASBOY   | P               |                 | O               |
| Records new personal fuel cards in LION  | P               | S               | O               |
| Records new vehicle fuel cards in LION   | S               | P               | O               |
| Records deactivated personal fuel cards in LION  | S               | P               | O               |
| Records deactivated vehicle fuel cards in LION   | P               | S               | O               |
| Communicates with department supervisors and managers regarding fuel cards issued, replaced and deactivated                          | S               | P               | O               |
| Oversees department users' sign-out of cards on fuel card log (index cards)  | S               | P               | O               |
| Destroys fuel cards returned to Fleet  | S               | P               | O               |
| Maintains key(s) to blank personal fuel cards  | P               |                 | O               |
| Maintains key(s) to blank vehicle fuel cards   |                 | P               | O               |
| Maintains correspondence received from departments regarding authorization to issue fuel cards                                       | P               | S               | O               |
| Monitors GASBOY real-time transactions for irregularities or potential abuse   | S               | P               | O               |
| Obtains verification from departments regarding active fuel card users, i.e., Human Resources, Risk Management and user departments  | S               | P               | O               |
| Conducts periodic meetings with appropriate departments regarding fuel card activations/deactivations, policies and procedures, etc. | S               |                 | P               |