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Audit Report

CITYWIDE FUEL COSTS

August 23, 2011

Office of the City Auditor
Austin, Texas

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City of Austin



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Date: August 23, 2011

To: Mayor and Council

From: Kenneth J. Mory, City Auditor

Subject: Audit of Citywide Fuel Costs

I am pleased to present this audit report on Citywide Fuel Costs. The Fleet Services Office FY 11 budget included \$15.1 million from City departments for fuel expense. Fleet Services provides the City with seven different fuels including unleaded gasoline, E10 ethanol, E85 ethanol, propane, natural gas, diesel, and biodiesel.

We found that the Fleet Services Office has segregated duties over the fuel process, but not all controls are working as intended. In addition, Fleet Services has established a plan for mitigating risk for the most significant method of accessing fuel, but it has accepted the risk of loss for some areas of operations without first quantifying the risk exposure for these areas. Based on our work, we recommend that Fleet Services verify invoiced quantities and prices prior to payment to their bulk fuel vendor and perform monthly reconciliations of fuel inventories. Also, we recommend that Fleet Services perform a study over a period of time to quantify avoidable loss and conduct a cost benefit analysis to determine whether implementing detective and preventative controls is warranted.

We appreciate the cooperation and assistance we received from staff in the Fleet Services Office during this audit.

cc: City Manager
Assistant City Managers
Chief Financial Officer
Fleet Services Officer
Public Information Officer

COUNCIL SUMMARY

This report presents the results of an audit of Citywide Fuel Costs. We found that the Fleet Services Office has segregated duties over the fuel process, but not all controls are working as intended. In addition, Fleet Services has established a plan for mitigating risk for the most significant method of accessing fuel, but it has accepted the risk of loss for some areas of operations without first quantifying the risk exposure for these areas.

Fleet Services has segregated duties over ordering and payment which serves as an important control. However, controls over receipt of fuel are not working as intended. In addition, during the period under audit, Fleet was not verifying that the price charged for fuel was correct prior to paying invoices. Also, monthly reconciliations of fuel balance quantities were not completed.

Fleet Services has established a plan for mitigating risk for the most significant method of accessing fuel, but it has accepted the risk of loss for some areas of operations without first quantifying the risk exposure for these areas. Fleet Services faces risks of fuel theft and loss related to the use of Vehicle Access Cards, Miscellaneous Access Cards, Retail Access Cards, and tanker trucks. These risks have been identified and recommendations to mitigate them have been issued in past audits and control reviews. Fleet Services has recognized the risk related to Vehicle Access Cards and plans to pilot a Radio Frequency (RF) transmitting system designed to mitigate the risk. However, this system is not expected to be in place for all fleet vehicles until several years from now.

In the interim, risk related to Vehicle Access Cards will still exist. In addition, the RF technology will not mitigate the risks related to the use of Miscellaneous Access Cards, Retail Fuel Cards or tanker trucks. Instead of implementing recommended controls from past audits, Fleet Services management has chosen to accept these risks, despite not having completed a formal cost-benefit analysis which would include defining the potential exposure to theft and loss.

We made two recommendations for improvement of controls.

(1.1) Fleet Services should completely implement and monitor processes to: (a) verify invoiced quantities prior to payment, with an electronic measure, for example with a mechanically imprinted fuel tanker meter ticket that includes the date and time and the quantity of fuel dropped into the City tank (if it is not feasible to use tank level readings for verification); (b) verify, prior to payment, that invoice fuel prices match Fleet Services calculated fuel prices as specified by the contract; and (c) on a monthly basis, identify and reconcile true variances between fuel purchased plus fuel in inventory and fuel dispensed.

(2.1) We recommend that Fleet Services perform a study over a period of time to quantify avoidable loss. Based on that information, conduct a cost benefit analysis to determine whether implementing detective and preventative controls is warranted.



ACTION SUMMARY AUDIT OF CITYWIDE FUEL COSTS



Recommendation Text	Management Concurrence	Proposed Implementation Date
1.1 Fleet Services should completely implement and monitor processes to: (a) verify invoiced quantities prior to payment, with an electronic measure, for example with a mechanically imprinted fuel tanker meter ticket that includes the date and time and the quantity of fuel dropped into the City tank (if it is not feasible to use tank level readings for verification); (b) verify, prior to payment, that invoice fuel prices match Fleet Services calculated fuel prices as specified by the contract; and (c) on a monthly basis, identify and reconcile true variances between fuel purchased plus fuel in inventory and fuel dispensed.	Concur	(a) Implemented 8/1/11
		(b) Implemented 8/1/11
		(c) Underway August 2011
2.1 Fleet Services should perform a study over a period of time to quantify avoidable loss. Based on that information, conduct a cost benefit analysis to determine whether implementing detective and preventative controls is warranted.		March 2012

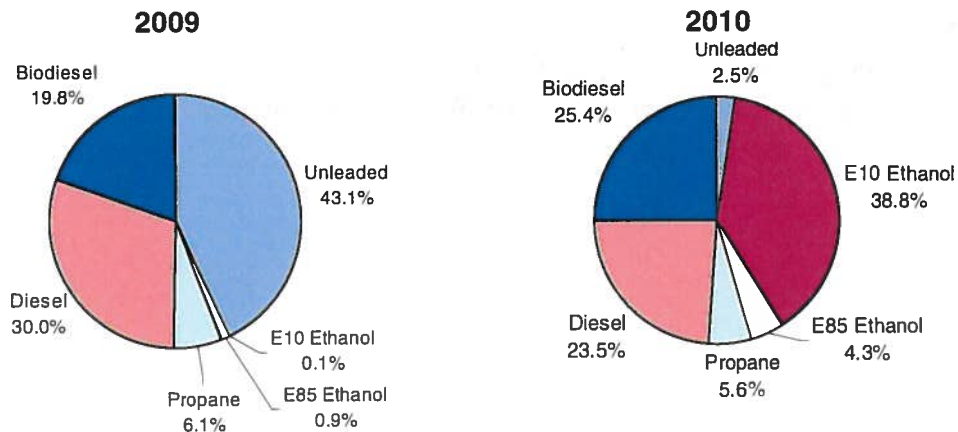
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BACKGROUND

The Fleet Services Office (Fleet Services) had a total operating budget of \$42 million in FY 2011, of which \$15.1 million (36%) would be generated by fuel revenues from City departments. Fleet Services provides the City with seven different fuels including unleaded gasoline, E10 ethanol, E85 ethanol, propane, natural gas, diesel, and biodiesel. The proportionate amount of each type of fuel used by City departments in FY 2009 and FY 2010 is shown in Exhibit 1 below.

EXHIBIT 1 Proportionate Amount of Fuel Used



SOURCE: Fuel usage data generated by Fleet's Fuel Management System M5, FY 2010
*Note: Natural gas data was not recorded within M5, Fleet Services fuel system of record.

Fleet Services manages 40 fueling stations across the City, located at Fleet Service Centers, the airport, fire stations, at various parks, and at solitary stations throughout the City limits. City employees and a limited number of external customers access fuel through three types of fuel cards:

- **Vehicle Access Cards** - assigned to specific City vehicles and must be swiped at the City fueling station pump.
- **Miscellaneous Access Cards** - assigned to departments for access to fuel for equipment or other fuel needs and must be swiped at the City fueling station pump.
- **Retail Fuel Cards** - assigned to certain divisions in ten City departments and used to purchase fuel at retail fuel locations.

Previous audits or control reviews with findings related to Fleet Services fuel management were conducted (see Appendix B for details). All of these previous reports provided Fleet Services specific recommendations to reduce the risk of fuel loss and theft.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Citywide Fuel Costs Audit was conducted as part of the Office of the City Auditor's FY 2011 Service Plan, as presented to the City Council Audit and Finance Committee. The audit was included in the Service Plan due to the rising cost of fuel and allegations of fuel theft through Access Card use.

Objectives

The objectives of this audit were to determine if fuel is properly safeguarded and accounted for as to fuel purchased, received, dispensed, and in inventory.

Scope

The scope for the audit was FY 2011. As the risk of fuel loss varies by the type of fuel, the audit focused on unleaded regular, diesel, and biodiesel fuels provided through Fleet Services' bulk fuel vendor, Sun Coast Resources. Propane and natural gas have limited value for use so the risk of loss from theft is less.

Methodology

In order to accomplish the audit objectives, we performed the following steps:

- Reviewed previous audits and control reviews related to Fleet Services fuel management.
- Interviewed Fleet Services management and staff to identify risks and determine implementation of previously recommended controls.
- Verified whether Fleet Services was confirming the amount delivered, and reconciling delivery from the manifest to tank level readings and invoice, for both price and amount (3 way match), for payments for the 21 day period from February 18, 2011 to March 10, 2011.
- Verified whether Fleet Services investigated variations in inventory amounts in excess of their stated tolerance limit, listed in the reconciliation report 'Fuel_Recon,' for the period from October 2010 through May 2011.
- Verified the existence of the Monthly Inventory Records, produced by Fleet Fuel as required for Federal and State regulatory agencies, for Fleet Service Center 01, unleaded and biodiesel underground storage tanks from January 2011 through May 2011.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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 provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

Fleet Services has segregated duties over the fuel process, but not all controls are working as intended. In addition, while Fleet Services has established a plan for mitigating risk for the most significant method of accessing fuel, it has accepted the risk of loss for some areas of operations without first quantifying the risk exposure for these areas.

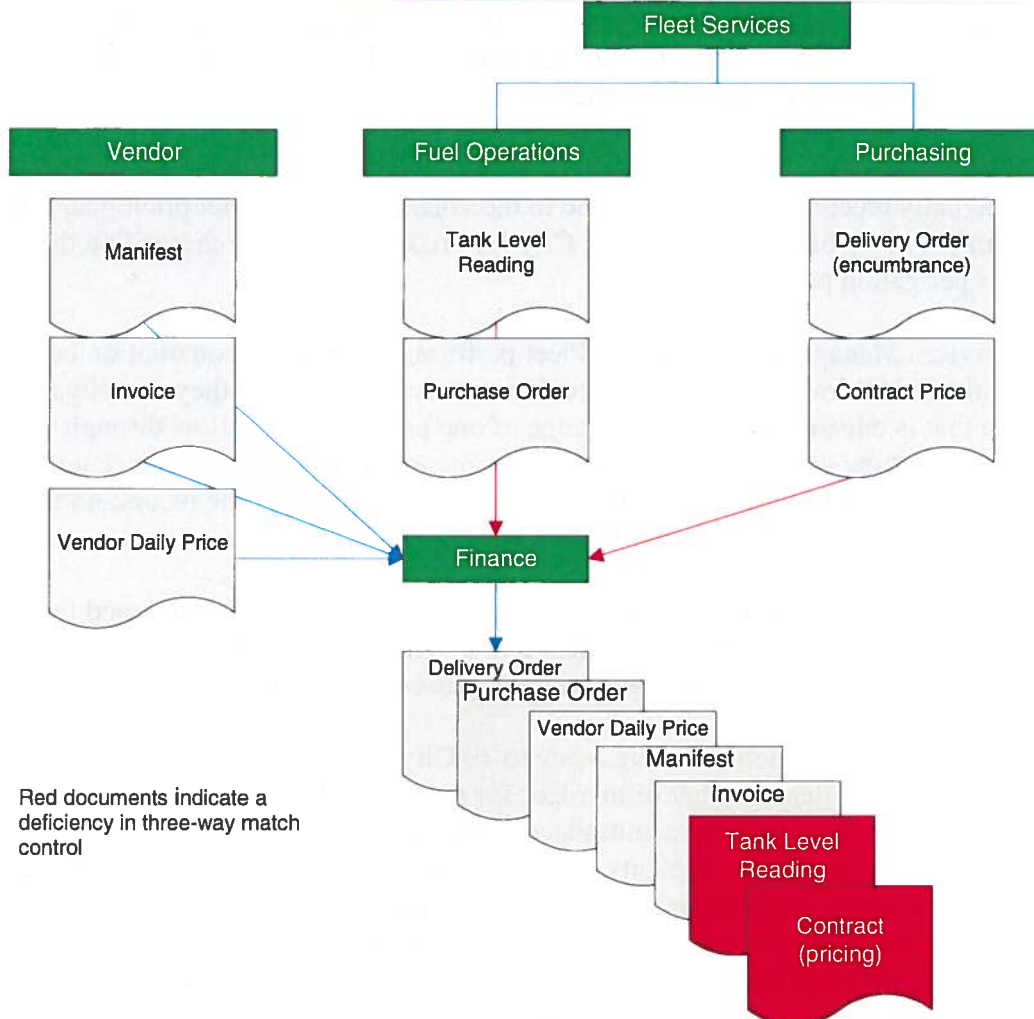
FINDING 1: Fleet Services has segregated duties over the fuel process, but not all controls are working as intended.

Fleet Services has segregated duties for ordering and paying for fuel purchases which serves as an important control. However, controls over receipt of fuel are not working as intended. In addition, during the period under audit, Fleet was not verifying that the price charged for fuel was correct prior to paying invoices. In addition, monthly reconciliations of fuel balance quantities were not completed.

Fleet Services has segregated duties over ordering and payment. Fleet Fuel personnel monitor fuel levels and place orders for deliveries. Fleet Purchasing personnel encumber funds while Fleet Finance personnel approve payment and pay the vendors. However, as stated below, controls over the delivery and price information provided to Fleet Finance personnel could be improved.

Improved controls over receipt of fuel and payment are needed to ensure the City only pays for fuel received and that the City pays the correct price. Exhibit 2 illustrates improvement opportunities for the Fleet Services receipt and payment processes to ensure a proper three-way match control. Fleet Fuel personnel provide Fleet Finance with summaries of electronic tank level readings that can be used to verify invoiced amounts. However, these readings are taken by Fleet Fuel staff who also orders fuel, so there is no segregation of duties under this arrangement. In addition, Fleet Services stated that this measure would not necessarily provide a direct verification of the amount delivered without additional analysis.

**EXHIBIT 2
Fuel Payment Controls are Not Working as Intended**



SOURCE: OCA Analysis of Fleet Services' ordering, receiving, and payment process, July 2011
 *Note: Fleet Finance is not using the documents in red to complete the three-way match to verify order, amount, and price prior to approving payment.

Per the fuel contract, a City employee on-site should verify delivery of fuel by witnessing electronic tank readings before and following delivery. The employee should then sign the vendor manifest, which includes the amount delivered. However, in practice City employees are signing the manifest without verifying delivery, thereby rendering this control inadequate. In addition, in some cases no employee is present to sign the manifest. In those situations, the delivery is confirmed the following day by Fleet Fuel personnel by taking a remote reading of the electronic tank level, which negates the segregation of duties.

Fleet Finance stated that they believed that the City employee signing the vendor manifest was confirming delivery of the fuel. Fleet Finance therefore accepted the vendor prepared manifest as the correct amount delivered and approved them for payment without conducting further review.

Fleet Finance should also verify that the vendor price is correct per the contract terms (prices are tied to a variable index) prior to authorizing payment as part of the three-way match control. However, during the period under audit Fleet Finance was not confirming contracted prices prior to making payment.

As a result of these control deficiencies, Fleet Services could be paying for more fuel than it actually receives. In addition, due to the volatile nature of fuel pricing and the large number of invoices processed, the City is at risk of being overcharged on the vendor's per gallon price.

Fleet Services Management stated that Fleet performs an annual reconciliation between the calculated fuel inventory and the actual inventory. They stated they investigate any variance that is outside the acceptable range of one percent of total flow through the system for the time period. Fleet considers this reconciliation to be the match against the vendor invoice and manifest. (Auditor's note: OCA did not audit the reconciliation process or verify the results for year to date FY 11)

Fleet Services Management also stated that in past periods they had confirmed the contract price prior to authorizing payment to the vendor. They further stated that once a vacant staff position is filled, they will be doing the confirmation prior to payment again.

We estimate 2,200 fuel deliveries are made to 40 City fueling stations in a year, generating an equivalent number of invoices for payment. This large quantity of deliveries and invoices may have complicated and impeded Fleet Services implementation of controls. The City of San Antonio, in contrast, has 11 fueling stations for all city departments, with the exception of their fire department and undercover officers who use retail fuel cards. Also, Fleet Services reports having had vacancies in key positions, although several of them are now filled, and this may have impacted controls.

Reconciliations of fuel balances are not being completed per Fleet Finance processes due to data integrity issues. Fleet Finance is supposed to review an inventory report monthly and take action when variances are greater than one percent to identify the cause. However, this is not being performed, in part because Fleet Services has not produced a valid report that measures actual discrepancies between calculated (book) balances and measured balances. Fleet Services Management stated that they are currently in the process of defining the appropriate data to use for reconciliation purposes and will begin performing monthly reconciliations by fuel tank once they have the data integrity issue solved.

Though Fleet Finance is not monitoring inventories, Fleet Fuel staff maintains a monthly inventory record of fuel for underground storage tanks as required by State and Federal regulatory agencies. However, this does not serve as an adequate control for reconciling fuel balances because the record does not include above ground storage tanks. Also, the

record is created by Fleet Fuel staff who order fuel and maintain physical inventories, and key duties would not be segregated under this arrangement.

FINDING 2: Fleet Services has established a plan for mitigating risk for the most significant method of accessing fuel, but it has accepted the risk of loss for some areas of operations without first quantifying the risk exposure for these areas.

Fleet Services faces risks of fuel theft and loss related to other areas of operation, including Vehicle Access Cards, Miscellaneous Access Cards, Retail Access Cards, and tanker (bob tail) trucks. These risks have been identified and recommendations to mitigate them have been issued in past audits and control reviews (see Appendix B for recommendations).

According to Fleet Services, the percent of fuel accessed by each method is as follows:

- Vehicle Access Cards – 89.3%
- Miscellaneous Access Cards – 7.0%
- Retail Access Cards – 3.3%
- Tanker trucks – 0.4%

Fleet Services has recognized the risk related to Vehicle Access Cards and plans to pilot a Radio Frequency (RF) transmitting system designed to mitigate the risk. However, this system is not expected to be in place for all fleet vehicles until several years from now. In the interim, risk related to Vehicle Access Cards will still exist.

In addition, the RF technology will not mitigate the risks related to use of Miscellaneous Access Cards, Retail Fuel Cards or tanker trucks. Instead of implementing recommended controls from past audits, Fleet Services management has chosen to accept these risks, despite not having completed a formal cost-benefit analysis which would include defining the potential exposure to theft and loss.

Fleet does not have detective controls in place to allow identification of theft or loss. Without the proper preventative and detective controls in place, the City is at risk of losing fuel from theft and misuse. For example, Austin Water Utility identified significant differences in fuel dispersed from their tanker truck and fuel recorded as dispersed for the period from FY 2009 through January 2010, with an absolute value differential of 5,536 gallons out of 76,900 that had been put into the tanker. Similarly, a City of Baltimore employee stole more than 100,000 gallons of fuel using a city-owned tanker truck. The City of Berkeley also performed an audit of their fuel operation, and found that 57,000 gallons of fuel worth \$176,226 was unaccounted for by city departments and external customers.

Choosing to accept the risk without first determining the level of exposure is not in keeping with best practices. Risk exposure to theft and loss goes beyond a financial impact. It also affects the ethical culture of City employees and could impact the public perception of City government.

Vehicle Access Cards

Fleet Services management has stated that they are going to pilot a Radio Frequency (RF) transmitting system to electronically and automatically authorize a vehicle for fuel access. The system will ensure that only a particular vehicle, and nothing else, can be fueled, a control which is currently missing. This will address the risk related to these cards, and also allow fleet to obtain additional vehicle information to manage the fleet. However, the system is not expected to be in place for all fleet vehicles until several years from now.

Miscellaneous Access Cards

In FY 2010, Fleet Services records show Miscellaneous Access Cards were used to disperse 391,055 gallons of fuel. Previous audits and control reviews identified the control deficiencies of Fleet Services Miscellaneous Access Cards and included recommendations that Fleet Services implement a system to identify an individual user to a particular fuel transaction. Industry best practices recommend requiring an employee to enter a password tied to the card and a personal identification number (PIN) when they use a fuel card in order to create an audit trail. Industry best practices also recommend performing routine fuel audits that review transaction data to identify irregular transactions, duplicates, and other exceptions.

Based on promotional material for the Fleet Fuel system vendor, the M5 database system should be able to maintain a linkage between Miscellaneous Access Cards and individuals. Fleet Services Management, however, indicates that while this could be done, they have considered it and rejected it because of the potential complexity and expense. Fleet Services has not quantified the potential expense.

As the Miscellaneous Access Cards are not associated with vehicles, RF technology will not provide a control, and residual risks will remain.

Retail Access Cards

In FY 2010, Fleet Services reports \$302,052 in expenditures were made with the Retail Access Cards. A previous audit recommended that the Retail Access Card program implement controls similar to those of the City's ProCard program. Currently, the goods that may be purchased on the cards are somewhat restricted, but not limited to fuel only, and not all cards are linked to individual employees with a PIN. Some cards have a group PIN shared by multiple users. In addition, payment of Retail Access Card charges by Fleet Finance is made prior to a review of transactions by user departments or Fleet Services.

As the Retail Access Cards are not associated with City fueling stations, RF technology will not provide a control, and residual risks will remain.

Tanker Trucks

In FY 2010, Fleet Services records show that 64,282 gallons of fuel were dispensed into the City's two tanker trucks. The City now owns three tanker trucks that are operated by

Fleet Services, Austin Water Utility, and Solid Waste Services. Fuel dispensed from these trucks is manually recorded onto a log that is to be maintained by the fuel truck driver. This log is then submitted to Fleet Finance to be entered into M5.

Previous audits and control reviews, identified in Appendix B, included recommendations that Fleet Services install an automated fuel dispensing system on these mobile tanker trucks in order to record and transmit accurate use data into M5. Fleet Services considered installing an automated fuel dispensing system, but rejected this option due to the potential expense. They estimate a total expense of \$77,887 for the system for the three trucks, around \$26,000 per truck. In addition, recommendations have been made to have a periodic reconciliation to ensure that fuel dispensed matches fuel used. Fleet Services is not currently performing these reconciliations.

RF technology will not mitigate risks associated with the dispensing of fuel by the three City tanker trucks, and residual risks will remain.

RECOMMENDATIONS:

The recommendations listed below are a result of our audit effort and subject to the limitation of our scope of work. We believe that these recommendations provide reasonable approaches to help resolve the issues identified. We also believe that operational management is in a unique position to best understand their operations and may be able to identify more efficient and effective approaches and we encourage them to do so when providing their response to our recommendations. As such, we strongly recommend the following:

(1.1) Fleet Services should completely implement and monitor processes to:

- (a) verify invoiced quantities prior to payment, with an electronic measure, for example with a mechanically imprinted fuel tanker meter ticket that includes the date and time and the quantity of fuel dropped into the City tank (if it is not feasible to use tank level readings for verification),
- (b) verify, prior to payment, that invoice fuel prices match Fleet Services calculated fuel prices as specified by the contract, and
- (c) on a monthly basis, identify and reconcile true variances between fuel purchased plus fuel in inventory and fuel dispensed.

MANAGEMENT RESPONSE: Concur

(1.1.a) The responsibility to verify deliveries within the constraints of the available technology has already been separated and transferred to Fleet Finance Accounts Payable staff.

(1.1.b) Verification to pricing prior to payment was performed prior to January 2011, but due to staff turnover, the verification occurred post-payment. With staff now in place, verification of prices prior to payment is in place. FSD is doing post payment audits of

payments for the period 01/11 – 07/11. Initial audit of 3 month period identified \$269.00 underpayment out of \$4.4 M billed.

(1.1.c) Monthly reconciliation reports are being done and cumulative variances are within tolerable limits. Individual tank variances have yet to be completely resolved although the causes have been identified as suspense items, manual issues, and improper calibration of some TLS equipment and do not appear to indicate theft of fuel. These should be resolved by 08/31/11. The integrity of fuel data was not an issue. Other relevant data was later added to the report.

(2.1) Fleet Services should perform a study over a period of time to quantify avoidable loss. Based on that information, conduct a cost benefit analysis to determine whether implementing detective and preventative controls is warranted.

MANAGEMENT RESPONSE: Concur

FSD had previously done an informal assessment of these risks and the costs associated with different mitigation strategies. A formal documented assessment will be performed.

APPENDIX A
MANAGEMENT RESPONSE




City of Austin

P.O. Box 1088, Austin, Texas 78767-1088

Fleet Services Division 1190 Hargrave Street, Austin, Texas 78702

M E M O R A N D U M

TO: Kenneth J. Mory, City Auditor

FROM: Gerry Calk, Fleet Officer 

DATE: August 19, 2011

SUBJECT: Management Response to Citywide Fuel Costs Audit

Attached please find Fleet Services Division's (FSD) response to the Citywide Fuel Costs audit. While FSD concurs with the recommendations made in the audit report, it is important to note that a significant amount of corrective action was ongoing during the course of the audit. In order to present a clear picture of the situation, the following information is submitted.

Finding 1 states that FSD has segregated duties over the fuel process, but not all controls are working as intended. It is important to note that the recommendation specifies one area that was not adequately segregated. FSD has now implemented the corrective action required to verify the deliveries of fuel.

The finding also states that verification of the fuel price charged did not occur prior to payment of the invoices. Due to staff turnover, this function had not been performed for only a short period of time from January through July 2011, which was the period of time covered by this audit. Prior to this period, pre-verification was occurring as intended. A post-payment audit is being completed; the months of May – July 2011 revealed the City had been undercharged in the amount of \$268.98 out of over \$4.4 million of charges in this period.. The remaining four months will be completed soon, but we do not anticipate a significant difference.

Additionally, Finding #1 states that "Reconciliations of fuel balances are not being completed monthly". Below is the status of the reconciliations to date:

- Annual system reconciliations completed within tolerable industry standards (1% of total fuel flow) for FY 09 – FY10
 - FY 09 difference 0.56%
 - FY 10 difference 0.18%
- Monthly fuel tank reconciliations completed thru June 2011
 - FY 11 YTD (thru June 2011) cumulative difference 0.44% (15,000 gallons out of 3.4 million issued)
 - Not all individual fuel tank differences resolved, but causes have been identified as suspense items, manual issues, and improper calibration of some TLS equipment and do not appear to indicate theft of fuel. These should be resolved by 08/31/11.

Although OCA indicated some data integrity issues may exist, FSD believes the data in the system is accurate and the only pertinent data issue is the result of incomplete data queries of the M5 fuel system. These issues have been corrected.

Finding #2 states that "Fleet Services has established a plan for mitigating risk for the most significant method of accessing fuel, but it has accepted the risk of loss for some areas of operations without first quantifying the risk exposure for these areas". FSD management had previously done an informal and undocumented assessment of risk factors inherent in the management and dispensation of fuel to City departments for fleet use. Based on this assessment FSD had already started implementation of a Radio Frequency Identifier (RFI) system to mitigate the risk inherent in the largest majority of fuel transactions (89.3%). Complete implementation will take several years. Additional controls have been implemented on the remaining 10% of fuel transactions, including fuel issue limitations on miscellaneous fuel access cards, PIN/zip code requirements at point-of-sale for retail access cards along with product/service limitations. FSD will complete a formal risk assessment that will document the decisions and quantify the risk and associated costs to implement mitigation strategies.

Lastly, FSD has experienced vacancies in key staff areas and has worked to fill these positions. Although some of these positions have been recently filled, the vacancies up to and during the audit period may have impacted the audit findings.

I appreciate the thoroughness and professionalism of the audit staff in conducting this audit. If I can provide any additional information or clarification, please advise.

CC: Leslie Browder, CFO
Jeff Knodel, Deputy CFO

ACTION PLAN
Citywide Fuel Costs Audit

Rec #	Recommendation Text	Concurrence	Proposed Strategies for Implementation	Status of Strategies	Responsible Person/ Phone Number	Proposed Implementation Date
1.1	<p>Fleet Services should completely implement and monitor processes to:</p> <p>a) verify invoiced quantities prior to payment, with an electronic measure, for example with a mechanically imprinted fuel tanker meter ticket that includes the date and time and the quantity of fuel dropped into the City tank (if it is not feasible to use tank level readings for verification),</p> <p>(b) verify, prior to payment, that invoice fuel prices match Fleet Services calculated fuel prices as specified by the contract; and</p>	(1.1,a)Concur	<p>(1.1,a) The responsibility to verify deliveries within the constraints of the available technology has already been separated and transferred to Fleet Finance Accounts Payable staff.</p> <p>(1.1,b) Verification to pricing prior to payment was performed prior to January 2011, but due to staff turnover, the verification occurred post-payment. With staff now in place, verification of prices prior to payment is in place. FSD is doing post payment audits of payments for the period 01/11-07/11. Initial audit of 3 month period identified \$269,000 underpayment out of \$4.4M billed.</p>	(1.1,b) Implemented	George Coble 974-1720	08/01/11

Rec #	Recommendation Text	Concurrence	Proposed Strategies for Implementation	Status of Strategies	Responsible Person/ Phone Number	Proposed Implementation Date
1.1	(c) on a monthly basis, identify and reconcile true variances between fuel purchased plus fuel in inventory and fuel dispensed	(1.1,c) Concur	(1.1,c) Monthly reconciliation reports are being done and cumulative variances are within tolerable limits. Individual tank variances have yet to be completely resolved although the causes have been identified as suspense items, manual issues, and improper calibration of some TLS equipment and do not appear to indicate theft of fuel. These should be resolved by 08/31/11. The integrity of fuel data was not an issue. Other relevant data was later added to the report.	(1.1,c) Underway	George Coble 974-1720	08/01/11
2.1	We recommend that Fleet Services perform a study over a period of time to quantify avoidable loss. Based on that information, conduct a cost benefit analysis to determine whether implementing detective and preventative controls is warranted.	(2.1) Concur	(2.1) FSD had previously done an informal assessment of these risks and the costs associated with different mitigation strategies. A formal documented assessment will be performed.	(2.1) Planned	George Coble 974-1720 Irvin Schmidt 978-2655	03/31/12

APPENDIX B
PREVIOUS AUDIT WORK AND RECOMMENDATIONS

This appendix is organized as follows:

- Summary of previous audit work,
- Current findings and previous recommendations by report and number, and
- Text of previous recommendations by report and number.

Summary of Previous Audit Work

- **Austin Water Utility (2011)** This audit, initiated after an allegation of fuel theft using fuel cans, found that miscellaneous fuel usage, Access Cards, and the utility’s tanker truck are not adequately monitored or controlled.
- **Padgett, Stratemann, and Co. (2010)** This external review of internal control found that Fleet Services did not have a process in place to verify or physically observe fuel delivered; a lack of monthly reconciliations between fuel purchased, consumed, and in inventory; and an insufficient process when an Access Card assigned to a department was used.
- **Corporate Internal Audit (2008)** This audit, initiated after discrepancies in fuel issued and fuel billed to a department, found that planned processes were not sufficiently implemented; identified differences in beginning/ending inventory and billed fuel between the fuel systems and the City’s financial system; and identified internal control deficiencies involving Access Cards and Retail Fuel Cards.
- **City Auditor’s Integrity Unit (2006)** This control review, initiated after an allegation of fuel theft at a PARD facility, found that Fleet Services did not provide fuel operators with written policies and procedures, or training; insufficient controls over access to Miscellaneous Access Cards and fuel cans; the City’s fuel vendor did not consistently make fuel deliveries within the contract time parameters when a City employee would be present; and poor physical controls over fuel tanks.

Current Findings and Previous Audit Recommendations

Current Finding	Recommendations from Previous Audits
<p>Finding 1: Fleet Services has implemented some controls over fuel ordering and payment, but additional controls are needed.</p>	<p><i>Payment and Delivery</i></p> <p>a) Padgett Stratemann external audit report, 2010 (R2) b) COA Corporate Internal Audit report, 2008 (R3.a) c) COA City Auditor Integrity Unit controls review, 2006 (R1 and R3)</p> <p><i>Reconciliation of Inventory</i></p> <p>a) Padgett Stratemann external audit report, 2010 (R3) b) COA Corporate Internal Audit report, 2008 (R1.c, R1.e, and R3.b) c) COA City Auditor Integrity Unit controls review, 2006 (R7)</p>

Current Finding	Recommendations from Previous Audits
<p>Finding 2: Fleet Services management has accepted the risk of loss for some areas of operations.</p>	<p><i>Vehicle Access Cards</i></p> <p>a) Austin Water Utility audit, 2011 (R2) b) Padgett Stratemann external audit report, 2010 (R4-R6) c) COA Corporate Internal Audit report, 2008 (R5.c)</p> <p><i>Miscellaneous Access Cards</i></p> <p>a) Austin Water Utility audit, 2011 (R1-R3) b) Padgett Stratemann external audit report, 2010 (R4-R6) c) COA Corporate Internal Audit report, 2008 (R5.c) d) COA City Auditor Integrity Unit controls review, 2006 (R2, R5, and R6)</p> <p><i>Retail Cards</i></p> <p>a) COA Corporate Internal Audit report, 2008 (R4.d)</p> <p><i>Fuel Tanker Trucks</i></p> <p>a) Austin Water Utility audit, 2011 (R1 and R4) b) COA Corporate Internal Audit report, 2008 (R1.a)</p>

Text of Previous Recommendations by Report and Number

Austin Water Utility (2011)

R1.1) The Utility Director should ensure that policies and procedures are developed to address controls over miscellaneous fuel cards, fuel cans, and fuel truck deliveries, such as securing cards and cans and monitoring and controlling fuel and fuel can usage.

R2.1) The Assistant Director of Finance and Business Services should work with the Fleet Services Program Manager to ensure that controls are implemented at the pump. For example, the pump can be programmed so that the user has to input their employee number or another security code prior to pumping fuel.

R3.1) The Assistant Director of Finance and Business Services should work with the City's Fleet Services Program Manager to obtain access to Fleet Services' Database, M5, and ensure that the Utility's Fleet Coordinator provides miscellaneous fuel card usage reports to Utility management on a periodic basis. The Coordinator may be able to program these reports so they are emailed directly to management.

R4.1) The Assistant Director of Pipeline Operations should work with the Fleet Program Manager to explore ways to automate the tanker truck delivery process so usage can be uploaded directly to Fleet Services

Padgett, Stratemann, and Co. (2010)

R2) Fleet should develop a process to attach a secured clipboard or other electronic entry device at all fueling location for their fuel vendor to indicate the time, date, gallons, and the employee that made the delivery. Fleet should also physically observe and verify the delivery process at as many fuel locations as possible.

R3) Fleet should enhance their fuel monitoring process by performing a monthly reconciliation of fuel purchased to fuel consumed, including a physical observation and measurement of fuel in each storage tank at the beginning and ending of each month.

R4) Fleet should require supervisors at SWS to keep a log of every transaction where their fuel card was used to fill up another vehicle and note the vehicle number and gallons dispensed at the pump.

R5) It is recommended that all individuals initiating a fuel card transaction be required to enter their employee number by scanning their badge as required to use the assigned vehicle fuel card.

R6) We recommend a consistent application of policies or a re-design of fuel policies applicable to APD that would require all APD users to enter an employee number by swiping their badge instead of the odometer miles when an incorrect odometer reading is entered a third time.

City of Austin Corporate Internal Audit (2008)

R1.a) Fleet should have a system in place that electronically records fuel transactions (by installing a mobile fuel terminal to fuel truck) dispensed to off-road equipment and vehicles.

R1.c) Fleet should implement the monthly reconciliation process between dispensed fuel versus billed fuel that was developed as part of Fleet's Fuel Operations work flow.

R1.e) As part of the reconciliation process of dispensed fuel, either maintain a spreadsheet or develop a report which would summarize fuel site information such as the total monthly number of pumped gallons (the difference between the fuel pump's previous closing balance and the current fuel pump's closing balance) versus the monthly number of billed gallons. This internal control would ensure that equipment and software was working as intended.

R3.a) Fleet should reconcile invoices and purchased gallons prior to payment.

R3.b) Fleet should review its inventory balancing procedures to ensure accurate ending inventory balance is reported.

R4.c) To help ensure accurate billing of fuel, Fleet should review the active Wright Express (WEX) cards [A new vendor is being used and the card is now called MPACT retail purchase cards.] and cancel (with the permission of the department/cardholder) cards that have not been used in an extended period of time. Also, Fleet should develop a policy for obtaining a WEX card and ensure that policy includes that the WEX card is directly tied to a vehicle unit, or if necessary, tied to a grouping of vehicles that will allow for all of the billing to occur electronically.

R4.d) Fleet management should establish the Wright Express (WEX) credit card program [A new vendor is being used and the card is now called MPACT retail purchase cards.] similar to the City's Purchasing Card program; which includes using all of the on-line tools that are offered by WEX to track, monitor, and control purchases. Also, Fleet should provide each department's WEX specific point of contact (SPOC) limited access to use the on-line tools that are provided by WEX. (A new vendor is being used and the card is now called IMPACT retail purchase cards.)

R5.C) Fleet should consider using E.J. Ward's available fuel card system/setup which is requiring a personal identification numbers (PIN) to be entered in after swiping the fuel card before fuel is issued.

City Auditor's Integrity Unit (2006)

R1) Fleet Services should develop written procedures for distribution to their fuel depot sites, and provide training on those procedures for fuel site managers.

R2) Fleet should consider revising its miscellaneous fuel card system to assign cards to specific individuals responsible for the use/access to fuel.

R3) Fleet should enforce contract terms that require a City employee to be present when fuel deliveries are made.

R4) Fleet should require standardized physical controls across fuel depot sites.

R5) Fleet services should issue individual fuel cards for PARD [Parks and Recreation Department] large, self-propelled equipment.

R6) All portable fuel containers should be marked as COA [City of Austin] property and an inventory of such containers should be maintained for each fuel depot site.

R7) Fleet Services should begin discussions with SCR [Sun Coast Resources] to implement the use of SMARTank™ technology for monitoring fuel tanks at sites that are currently manually monitored.