

Audit #18-10:

# Fuel Operations Follow-Up Audit

Audit Report

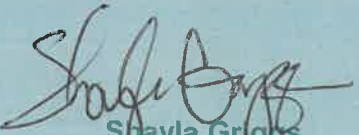
Office of the City Auditor and Clerk  
Internal Audit

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## SUMMARY

### BACKGROUND INFORMATION:

We have conducted a follow-up audit of Audit 16-15, Fuel Operations performed during fiscal year 2016. The purpose of the follow-up audit is to determine the implementation status of our previous recommendations. The audit objectives were:

1. Determining whether processes are in place to provide reasonable assurance that fuel usage is regularly and accurately monitored and safeguards are in place to authorize users and restrict fuel access to valid users;
2. Determining the adequacy of internal controls and processes relative to the fuel management system;
3. Determining whether data on fuel usage is monitored and reported to the proper outside agencies when required.

### OBJECTIVE:

The objective of the follow-up audit was to review and evaluate the conditions reported in the Fuel Operations audit (Audit 16-15), dated September 13, 2016, to determine if corrective actions have occurred and are effective, corrective actions appear to be continuous; and that corrections will be monitored to ensure the control weakness will not be repeated.

### AUDIT STANDARDS:

The follow-up audit was conducted based on the *International Standards for the Professional Practice of Internal Auditing* issued by The Institute for Internal Auditors.

### SCOPE:

The follow-up audit procedures were applied to the records, documents and controls in effect during the period of April 1, 2018 through June 30, 2018. Follow-up audits limit the scope to observations and recommendations presented in the original audit report.

### OVERALL EVALUATION:

We found that Management had fully implemented corrective action on three (3) of the four (4) original audit findings and as a result we have closed those issues. Part of one (1) of the original audit findings has been addressed, however audit testing identified similar exceptions as noted in the original audit. That item remains Open.

### AUDIT BY:

Hayden Gaston Manager, Internal Audit

## AUDIT OBSERVATIONS

This chart summarizes the original audit observations and the status of the original observation following testing at the completion of the follow-up audit. The original audit report (Audit 16-15, issued September 13, 2016) can be viewed on the City Auditor and Clerk’s website under Internal Audit – Internal Audit Report Archives.

AUDIT COMMENT	ORIGINAL AUDIT OBSERVATION	STATUS	FOLLOW-UP TESTING
<p>Observation #1</p> <p>Comprehensive City-Wide Policies and Procedures of the Fuel Program</p>	<p>Policies and procedures are not currently in place to govern the City’s fuel program. Procedures have not been established to specify the authority and conditions for the issuance, return, and termination of fuel keys, fuel cards or employee fuel pins. Responsibilities for monitoring the fuel program and the related monitoring procedures have not been documented. Monthly review of fuel consumption by department is not being performed nor has the responsibility for this function been assigned. Training requirements are not documented. An employee acknowledgement of the authorized uses of the fuel keys, pins and cards has not been developed for employees to sign. Additionally, FMS passwords are not unique to the individual users of the Fleet Maintenance Division.</p>	<p>Closed</p>	<p>Follow-up testing determined that the department implemented policies and procedures that provide guidance for operating the fuel program.</p> <p>Authorized employees sign acknowledgement form regarding fuel key usage which includes proper fuel key operations before a fuel pin is issued.</p> <p>Monthly review of transactions is being performed at the department level and exception reports are generated daily.</p>
<p>Observation #2</p> <p>Internal Controls over Fuel Usage</p>	<p>Fleet Maintenance Division and the individual departments are not performing monthly reviews of fuel transactions, active fuel users or fuel user activity.</p> <p>Controls over activating, issuing and terminating fuel keys, employee fuel pins and WEX fuel cards are not in place.</p>	<p>Partially Closed</p> <p>One item remains open</p>	<p>Follow-up testing determined that monthly review of transactions is being performed at the department level. Exception reports are generated daily for unusual transactions. <i>(Closed)</i></p> <p>Testing determined that before employees are issued fuel pins they must sign acknowledgement form for fuel key usage which includes prior</p>

AUDIT COMMENT	ORIGINAL AUDIT OBSERVATION	STATUS	FOLLOW-UP TESTING
			<p>authorization. Documentation is maintained for new and terminated users. <i>(Closed)</i></p> <p>Fleet Maintenance Division is receiving monthly reports from HR for terminated employees or employees that have changed cost centers. <b>During testing of active fuel users it was determined that 23 terminated employees still were included as active in the fuel program. <i>(Open)</i></b></p>
<p>Observation #3</p> <p><b>Internal Controls Over Fuel Management</b></p>	<p>One central person is responsible for the fuel management process. When one central person orders, receives and reconciles fuel there is an increased risk of error, fraud or abuse to occur and go undetected. Additionally, based on the fuel invoices that were tested it was not clear that the fuel quantity received was agreed against the fuel reported on the bill of lading, nor was it clear based on the bill of lading, which employee received the fuel.</p>	<p>Closed</p>	<p>Follow-up testing determined that there are now several employees involved in the fuel management process. Reconciliations of fuel delivered and fuel costs are being performed and an employee is acknowledging receipt of product.</p>
<p>Observation #4</p> <p><b>Fuel Tax Returns</b></p>	<p>The amount of fuel disbursed and reported as highway use on the tax returns did not agree to the Fuel Master System internal reports of fuel disbursed.</p> <p>Additionally, account receivables are not being recorded when the fuel return is uploaded as well as supporting documentation is not being provided to Finance.</p>	<p>Closed</p>	<p>Follow-up testing determined that fuel disbursed and reported as highway use on tax returns did agree to the Fuel Master System and review of monthly Fuel Tax Return by the Department Director was provided.</p> <p>Follow-up testing also determined that State Fuel Tax Returns are provided to the Finance Department as backup documentation for the expected monthly return. Differences, if any, are identified and resolved.</p>

NOTE: An Open Audit Comment is defined as a control weakness for which management has not yet implemented corrective action that will strengthen internal controls and reduce risk factors. A Partially Closed Comment is a control weakness for which management has not yet completely implemented corrective action. A Closed Audit Comment is a control weakness for which management's corrective action has strengthened internal controls and reduced existing risk factors.

## FOLLOW-UP COMMENT AND RECOMMENDATIONS:

The following comments discuss exceptions noted during the follow-up testing.

### Follow-up Comment – Audit #16-15 Comment 2:

There are approximately 520 active fuel users listed in the Fuel Master System. Fuel users are in divisions across all City departments and are added to or deleted from the Fuel Master System based on proper authorization. Currently Human Resources provides a worksheet listing monthly personnel changes for the fuel island to the Fleet Maintenance Division listing employees by name, title, cost center and changes to employee status. The Fleet Maintenance Division then adjusts users in the Fuel Master System based on the listing provided from Human Resources. Audit testing identified 23 terminated City employees that were still included as active in the Fuel Master System.

**Recommendation** – To strengthen controls over user access we recommend in addition to receiving monthly reports from Human Resources, Fuel Maintenance Division provide City departments reports listing active users within individual department by name, title and cost center. Departments should approve the listing at least annually.

**Management Response** - The Fleet Manager or designee will send out a Fuelmaster list of authorized users to each department Fleet liaison twice each year (January and June) asking them to confirm active and authorized users and to also date and sign the form and return to the Fleet Manager. The forms will then be compared and updated in Fuelmaster before being filed in our WEX file.

**Committed Action Date** – Immediately, November 30, 2018