

Fleet Fuel Card Audit October 2016



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MEMORANDUM

TO: William Daniel, Audit Committee Chair
Casey Cashio, Audit Committee Member
Marsha Hanlon, Audit Committee Member
Chandler Loupe, Audit Committee Member

FROM: Barbara Baughman
Auditing Manager

SUBJECT: FLEET FUEL CARD AUDIT

Enclosed is our report on the Fleet Fuel Card Audit. The audit was conducted in accordance with our annual work program. This report presents all audit issues and corresponding recommendations.

The Internal Auditing Division will conduct a follow-up review regarding implementation of recommendations. The result of the follow-up review will be reported to the Audit Committee.

We would like to thank the Business Operations and Capital Programs staff and the Fleet Management staff for their cooperation and assistance during the audit.

Barbara Baughman
Auditing Manager

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CHAPTER ONE – BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

Program Overview

Every City-Parish vehicle is issued a fuel card. Additionally, fuel cards are issued to some equipment and gas cans. Each City-Parish employee who is authorized to purchase fuel is issued a Personal Identification Number (PIN). When an employee fuels a vehicle, he/she inserts the fuel card assigned to the vehicle and enters the PIN along with the vehicle's odometer reading. Every transaction is recorded electronically and maintained within the FuelTrac fleet management system. City-Parish employees are encouraged to fuel at City-Parish locations but they can fuel at any station in the FuelTrac network.

The Department of Business Operations and Capital Programs manages the issuance of fuel cards and PINs as well as billing for the fuel program. The Department of Fleet Management manages fueling equipment inspections and maintenance in addition to vehicle maintenance. Each department is responsible for monitoring its own fuel usage.

Contract

Resolution 51016 authorized the Mayor-President to enter into a contract with FuelTrac Inc. for automated fuel dispensing and management services. The term of the contract was November 1, 2014 through March 31, 2016 with an option to renew the contract annually after the first two year period up to a total of five years. The City-Parish renewed the contract through March 31, 2017.

Pricing Structure

Fuel prices are determined by the fueling site and the type of fuel as shown below. The City-Parish also receives an incentive consignment fee of \$0.0277 for being billed weekly instead of monthly.

City-Parish Site¹ – If fuel is purchased at a City-Parish site, the Oil Price Information Service (OPIS) index is used to determine fuel prices.

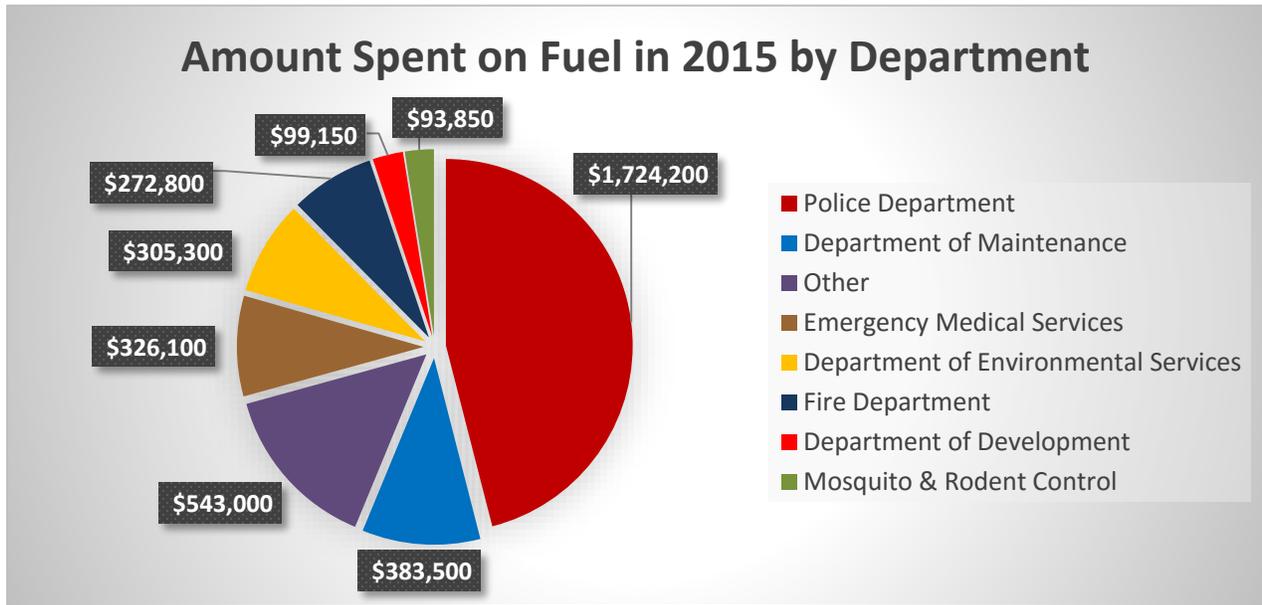
Off Premise Site² – If fuel is purchased at an off premise site, the American Automobile Association (AAA) fuel index is used to determine fuel prices.

FuelTrac Statistics

As of January 2016, 2,163 PINs and 2,394 vehicles were active in the FuelTrac system. The City-Parish spent \$3,747,900 on fuel during 2015. The diagram on page two displays a comparison of the volume of fuel purchased by department.

1 A City-Parish site includes the fueling sites at East Lot, North Lot, South Lot, and Central Garage.

2 An off premise site is a commercial retailer or gas station.



FuelTrac Card Controls

Fuel card controls can be used to limit or prevent purchases. Hard controls prevent the transaction from completing if the restriction is triggered. Soft controls allow the transaction to complete but report the transaction as an exception if the restriction is triggered. Hard controls include limits on the number of transactions within a period or limits on the dollars spent within a period. Soft controls include the designated fuel type and tank capacity for the vehicle assigned to the card. Although these are soft controls in FuelTrac’s system, these can be hard controls for systems with the capability.

The default settings for City-Parish fuel cards are hard controls of two transactions per day and a dollar limit of \$1,000 per month. FuelTrac has the ability to limit the number of transactions per day, week, or month and to limit transactions by the day of the week or the time of the day. FuelTrac can also limit dollars spent by the day, week, or by transaction. However, FuelTrac cannot prevent transactions such as fuel type compatibility or limit the gallons purchased to the vehicle’s tank capacity.

OBJECTIVES

The objective of this audit was to determine if the controls associated with fuel purchases were appropriate and sufficient. This was accomplished by determining if any terminated employees or decommissioned vehicles had continuing transactions. Invoices were also recalculated to determine if the City-Parish was being billed according to the FuelTrac contract.

SCOPE AND METHODOLOGY

Active Employee Test

To determine if any terminated employees were still purchasing fuel, each active employee in the

FuelTrac system was matched to the City-Parish Payroll System. Terminated employees were evaluated to determine if any fuel purchases had been made after the termination date.

Active Vehicle Test

To determine if any decommissioned vehicles were still receiving fuel purchases, each active vehicle in the FuelTrac system was matched to the City-Parish Fixed and Movable Asset (FMA) System. Disposed vehicles were evaluated to determine if any fuel purchases were made after the disposition date.

Transaction Exceptions Review

Exceptions were identified by comparing the fuel type, tank capacity, and department in the vehicle's profile to the type of fuel purchased, the number of gallons purchased, and the department of the driver purchasing fuel. Exceptions were analyzed to determine the quantity of exceptions present in the fuel program.

Invoice Verification Test

To verify that the City-Parish paid for fuel purchases according to the pricing structure outlined in the FuelTrac contract, the invoices for the weeks of April 27, 2015 and October 12, 2015 were recalculated. These recalculations were compared to the invoices received from FuelTrac.

Departmental Controls Evaluation

To evaluate departmental controls for the fuel cards, the auditor interviewed departmental representatives for all departments with 40 or more fuel cards. Departments with less than 40 cards were sent a questionnaire. Thirty-one departments provided information for the questionnaire.

Equipment Test

To determine if the fueling equipment at City-Parish owned sites were operating properly, the auditor verified the fueling site's calibration testing. Additionally, the auditor verified that the City-Parish had current Certificates of Underground Storage Tank Registration and Certificates to Operate for City-Parish owned underground storage equipment.

Transaction Limit Test

To evaluate if card level controls were working properly, the auditor observed the following tests of a fuel card assigned to the Finance Department - Service Fee Business Office:

- Attempted to purchase fuel more than two times;
- Attempted to purchase fuel that was not the vehicle's valid fuel type; and
- Attempted to purchase items from the gas station convenience store (soft drinks, snacks, etc.).

Odometer Readings

Odometer Readings were not reviewed or analyzed in this audit. Odometer readings are not tracked in the FuelTrac system.

CHAPTER TWO - AUDIT ISSUES

FUEL PROGRAM OVERSIGHT

The Fleet Fuel Program lacks comprehensive oversight and management to ensure database accuracy, equipment maintenance and inspections, transaction monitoring, and disciplinary action for program violations. There are no policies and procedures in place that outline the responsibilities for the management of the program.

Program responsibilities are divided between departments as listed below:

- Office of Business Operations and Capital Projects staff verifies billing, manages the FuelTrac database, and issues cards and PINs based on information provided by the user department;
- Department of Fleet Management manages fueling equipment inspections and maintenance; and
- User departments are responsible for monitoring employee fuel purchases, overall fuel consumption, and transaction exceptions.

The program does not have an administrator who is responsible for unifying the actions of the departments and for performing the following additional activities:

- Ensuring that program information is valid and reliable;
- Monitoring city-wide fuel usage for trends and exceptions;
- Confirming that departments adhere to policies and regulations;
- Enforcing disciplinary action for program violations and exceptions; and
- Contract management.

As a result, Internal Auditing identified active driver PINs associated with terminated employees, active cards linked to disposed vehicles, insufficient and inaccurate information used to set card controls, and fueling exceptions by type and amount. Additionally, audit tests showed inconsistent equipment maintenance and inspections. The lack of program oversight resulted in fraudulent purchases of \$1,180 and questionable purchases totaling \$49,083 for 2015.

DRIVER EXCEPTIONS

When comparing the City-Parish Payroll System to the FuelTrac system, the following driver exceptions were identified:

- There were 189 terminated employees that had active PINs;
- Three of the terminated employees had transactions after their termination date;
- There were 257 active employees listed in the FuelTrac system that did not purchase fuel during 2015; and
- The Department of Mosquito Abatement and Rodent Control was assigned 14 PINs that were associated with a vehicle instead of an employee. These PINs were used by the department's night crew to fuel the vehicles. City-Parish policy requires a PIN for each employee authorized to access the fueling system.

Further analysis of the three terminated employees with purchases after their termination date showed the following:

- One terminated employee's PIN was given to the employee who took over their position. Upon notification, the Parish Attorney's Office cancelled the PIN for the terminated employee and acquired a new PIN for the replacement employee.
- The second terminated employee had one transaction the day after the termination date. It was a purchase of 12 gallons of unleaded fuel. The Police Department was notified of the transaction.
- The third terminated employee, also a Police Department employee, consistently used his fuel card for five months after his termination date. He purchased approximately \$1,180 in gasoline during that period. The Police Department investigated the matter and arrested the former employee. Following this incident, the Police Department has started emailing termination notices to the Police Fleet Division so that PINs can be promptly canceled.

The exceptions are a result of departments not reporting terminations to the FuelTrac Database Manager in the Office of Business Operation and Capital Projects in a timely manner. Additionally, the Database Manager does not periodically compare active drivers in the FuelTrac system to active employees.

There are no unique identifiers present in the FuelTrac system to match information to the City-Parish Payroll System. This made it difficult to verify that drivers in the FuelTrac system were valid City-Parish employees.

VEHICLE EXCEPTIONS

Comparison of the FuelTrac system to the FMA System identified the following vehicle exceptions:

- There were 59 vehicles that had active fuel cards but the vehicles had been disposed of according to the FMA System;
- Ten of the 59 vehicles had 316 transactions totaling \$10,770 after the disposition date;
- Seven of the vehicles were disposed of prior to 2007 when the FuelTrac contract was initiated;
- There were 355 vehicles that did not have any transactions during 2015; and
- Eight vehicles in the FuelTrac system could not be matched to vehicles in the FMA System.

Departments do not report the disposal of vehicles to the FuelTrac Database Manager timely. In addition, the Database Manager does not periodically compare active vehicles in the FuelTrac system to active vehicles in the FMA System.

No unique identifiers were present in the FuelTrac system to link vehicles to the FMA System. Vehicle unit numbers were inconsistently recorded in the FMA System. Unit numbers are generally followed by a letter, (for example 3015-U), however, this format was not used consistently. Also, unit numbers are sometimes reused. This makes it difficult to confirm if vehicles listed in the FuelTrac system are valid City-Parish vehicles.

CARD CONTROLS AND EXCEPTIONS

Control profiles were not complete for 843 of 2,394 cards (35%). For example, some profiles did not include information associated with soft controls such as the drivers' or vehicles' department, fuel tank capacity, and fuel product type. There were 833 vehicles whose control profile did not include a valid fuel product and 843 vehicles whose control profile did not include the fuel tank capacity. Therefore, it is difficult to determine if transactions associated with these vehicles are valid. Per the FuelTrac Database Manager, some of this data did not copy properly when FuelTrac transferred card data for the new public works departments. However, exceptions included card profiles for various departments. The missing data indicates that no one reviews card and driver profiles periodically for completeness.

Of cards with complete control profiles, the following exceptions were identified for 2015 transactions:

Invalid Purchases

- Of the 4,996 product purchases, 2,509 were purchases of super or plus unleaded fuel which were not the valid product for these vehicles. These purchases cost \$14,837 more than if the employee had purchased the valid product (usually unleaded). Seventy-seven percent (77%) of these transactions are associated with fuel cards assigned to the Police Department.
- There was at least one instance in April 2016 where an employee put the incorrect fuel type into a vehicle and the vehicle was damaged. The repair costs were \$491.

Exceeds Capacity

- Fifty-six vehicles had 242 transactions that exceeded the vehicles listed fuel tank capacity by 20 gallons or more.
 - Of those, 21 vehicles had 96 purchases that exceeded the vehicle's listed fuel tank capacity by 50 gallons or more.
 - Eleven of these fuel cards were assigned to gas cans.
 - The most extreme purchase was a 234 gallon purchased for a 2007 International Truck with a capacity of 100 gallons.
- The departments spent \$34,246 for 825 transactions where a vehicle had a fuel purchase exceeding its capacity.

Monitoring

Transactions populate an exception report when an invalid product or excessive capacity is purchased. These reports are sent to each department weekly. Departments are responsible for reviewing exception reports, following up on transactions, and determining if disciplinary action should be taken. The current policies and procedures only refer to disciplinary actions if a misappropriation is discovered. There is no mention of disciplinary actions for other exceptions such as fueling with a higher grade of fuel.

The FuelTrac Database Manager receives an email notification from FuelTrac every time a transaction is declined. However, there are no requirements for the Database Manager to follow-up on declined transactions or refer them to the appropriate department.

CARD CONTROL TESTING

In order to test the controls over transaction limits for cards, the auditors observed the use of a fuel card assigned to the Finance Department - Service Fee Business Office. The card completed two transactions. The FuelTrac system did not allow the card to complete a third transaction at the fuel pump. Also, the system did not allow the driver to purchase soft drinks from the gas station convenience store with the fuel card. Although unleaded is listed as the product type in the card's profile, the driver was able to purchase super unleaded fuel. The purchase was listed on the Driver and the Vehicle Reports. Card controls functioned as designed.

EQUIPMENT TESTS

Certifications

The following issues were noted regarding fueling station certifications:

- The North Lot did not have a Certificate to Operate for 2016 or 2015. It also did not have a Vapor Recovery Test for 2015.
- The South Lot did not have a 2016 Certificate to Operate.
- The South Lot and North Lot did not display appropriate certificates and registrations.

No City-Parish employee had been assigned responsibility for ensuring certifications were properly acquired and displayed. These certifications are issued by the Louisiana Department of Environmental Quality and ensure that the equipment used to store and distribute fuel is working properly.

Calibration

Fuel dispensers at all locations had not been calibrated since 1999. Calibration ensures proper calculation of fuel dispensed. No City-Parish employee had been assigned to ensure that this service was performed by the Weights and Measures Division of the Louisiana Department of Agriculture. The contract with FuelTrac Inc. gives any risk of loss of fuel due to inaccurate meter calibration to the City-Parish.

Internal Auditing informed the Fleet Management consultant of this issue. The consultant contacted the Weights and Measures Division to get the pumps tested and calibrated in June 2015. Two pumps were found to be out of compliance and were recalibrated. The pumps at East Lot have not been calibrated due to the equipment using liters instead of gallons to calculate fuel dispensed. The pumps are still in use.

Testing

The City-Parish paid HRH Pump Services approximately \$4,550 in 2015 for Vapor Recovery and Precision Leak testing services at different fueling sites. HRH's annual contract with the City-Parish is limited to "labor only for service station and garage equipment repairs." The testing is outside the scope of the contract. The testing also appears to be outside HRH's normal services because the testing was performed by another business on behalf of HRH.

DEPARTMENT CONTROLS

Not all departments are complying with City-Parish policies for the fuel card program. This has resulted in insufficient monitoring and weak controls. Policies are documented in the Departmental and Employee Responsibilities distributed by the FuelTrac Database Manager.

Policies and Procedures

Twelve departments could not produce a written set of policies and procedures. Additionally, these departments do not inform employees of their responsibilities regarding the fuel card program.

Monitoring

Four departments do not review fueling transaction reports for discrepancies. Twenty departments do not have access to the FuelTrac online reporting system.

Fuel Program Management

Two departments do not have an employee assigned to handle fuel program related tasks.

Five departments do not have accurate knowledge of how to acquire and cancel fuel cards. These departments indicated that they communicate with the Finance, Purchasing, or Fleet Management departments for fuel program related tasks. These three departments do not have administrative responsibilities for the fuel program.

INVOICE VERIFICATION TEST RESULT

Internal Auditing recalculated and evaluated two invoices from 2015. We concluded that the City-Parish was properly billed for fueling purchases by FuelTrac based on the terms of the contract.

CHAPTER THREE – RECOMMENDATIONS AND EXIT CONFERENCES

RECOMMENDATIONS

1. Fuel Program Oversight

The Mayor's Office should assign the overall management and monitoring of the Fuel Program to an Administrator to ensure comprehensive oversight. The Administrator should oversee the program areas performed by Office of Business Operations and Capital Projects and Fleet Management in addition to the following:

- Ensure program information is valid, reliable; and timely;
- Monitor city-wide fuel usage for trends and exceptions;
- Enforce disciplinary action for program violations; and
- Contract management.

(In most cities, this function is performed by Fleet Management.)

2. Fuel Program Database Management

The Fuel Program Administrator should immediately take steps to ensure that the information in the Fuel Program database is complete and accurate. This includes canceling fuel cards and PINs for employees and vehicles that have been terminated or disposed of, correcting or completing necessary records, and adding unique identifiers.

3. Fuel Program Monitoring

The Fuel Program Administrator should periodically review information in the Fuel Program database for accuracy and completeness. The Administrator should monitor declined transactions and exceptions to identify trends, program violations, and possible fraud.

4. Valid Employee/Vehicle Verification

The FuelTrac Database Manager should not activate a card or PIN without acquiring complete information including valid product type, tank capacity, property tag number, and employee ID number.

All employees that participate in the Fuel Program should be required to acknowledge they have read the policies and procedures before receiving a PIN.

5. Policy and Procedure Update

The Fuel Program Administrator should develop fuel program policies and procedures for comprehensive program management. Policies should include guidance for departmental monitoring, reporting of discrepancies, and outline a disciplinary structure for policy violations.

6. Fuel Card Transaction Controls

The Fuel Program Administrator should update card controls in order to lower the risk of fuel misappropriation.

- Gas can cards should have a transaction limit of \$20;

- Cards with limits exceeding the default of \$1,000 monthly should be evaluated to determine if the limits can be lowered based on usage; and
- Hard controls limiting fuel type and matching fuel capacity should be added if they become available from FuelTrac or future vendors. The use of hard and soft controls should be evaluated to determine if more hard restrictions should be used.

7. Fuel Station Equipment Management

The Fleet Management Director should ensure that fuel tanks and fueling equipment are maintained, monitored, and inspected as required. The Director should ensure that all purchasing requirements are followed, regulatory obligations are met, and that dispensers are calibrated annually.

EXIT CONFERENCES

Office of Business Operations and Capital Programs

Internal Auditing held an exit conference on August 3, 2016 with the following persons in attendance:

- Trina Hall, Asst. Public Works Director of Management and Finance;
- Jonathan Drone; Senior Auditor; and
- Barbara Baughman, Auditing Manager.

The contents of the report were fully discussed.

Fleet Management

Internal Auditing held an exit conference on August 10, 2016 with the following persons in attendance:

- David Childress, Fleet Management Director;
- Jonathan Drone; Senior Auditor; and
- Barbara Baughman, Auditing Manager.

The contents of the report were fully discussed.

Office of the Mayor-President

Internal Auditing held an exit conference on September 9, 2016 with the following persons in attendance:

- William Daniel, Chief Administrative Officer;
- Jonathan Drone; Senior Auditor; and
- Barbara Baughman, Auditing Manager.

The contents of the report were fully discussed.