

**Performance Audit of
The City's Fleet Fuel Operations**

May 2009

**City Internal Auditor's Office
City of College Station**

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Fuel Operations Audit

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Introduction

The City Internal Auditor conducted this performance audit of the city's fleet fuel operations pursuant to Article III Section 30 of the College Station City Charter, which outlines the City Internal Auditor's primary duties.

A performance audit is an objective, systematic examination of evidence to assess independently the performance of an organization, program, activity, or function. The purpose of a performance audit is to provide information to improve public accountability and facilitate decision-making. Performance audits encompass a wide variety of objectives, including those related to assessing program effectiveness and results; economy and efficiency; internal control; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information.

The results of a citywide risk assessment conducted in October 2007 identified asset management as a potential audit topic for the fiscal year 2009 audit plan. On October 23, 2008, the City Council approved the City Internal Auditor's audit plan, which included an audit of fleet asset management.

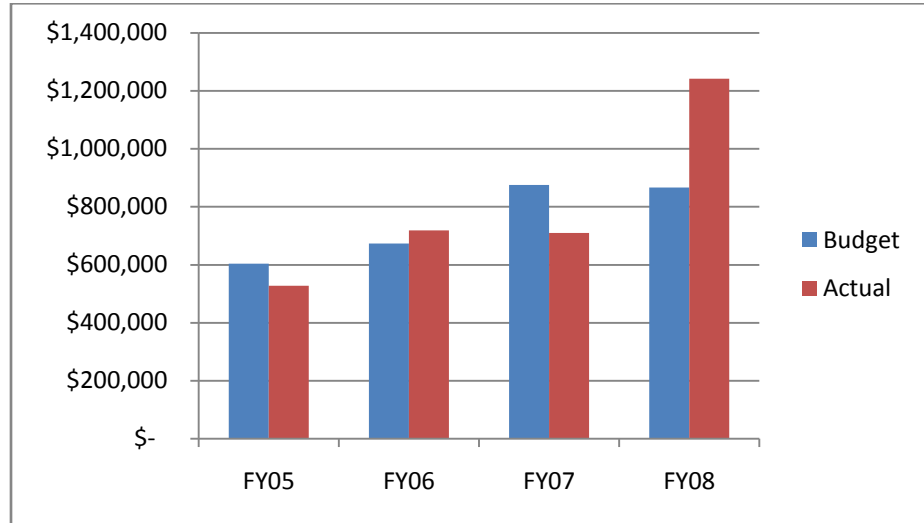
A preliminary review of fleet management was conducted in February 2009. During the preliminary review, significant discrepancies relating to accounting of fuel inventory were identified. For example, an approximate \$205,600 adjustment to fuel inventory was made in fiscal year 2008. As a result, the scope of the fleet asset management audit was narrowed to focus on the city's fleet fuel operations.

Fuel Operations Background

For fleet operations, the majority of dollars spent on fuel was purchased for vehicle use through the Fleet Services Division of the Department of Public Works. Authorized city employees obtain fuel for city equipment and vehicles at one of the two city fueling stations. Fleet Services then charges the appropriate department for the fuel dispensed.

Figure 1 shows the amount the city budgeted and spent on fuel during the last four complete fiscal years. In fiscal year 2009, the city has budgeted approximately \$1.4 million for the cost of fuel.

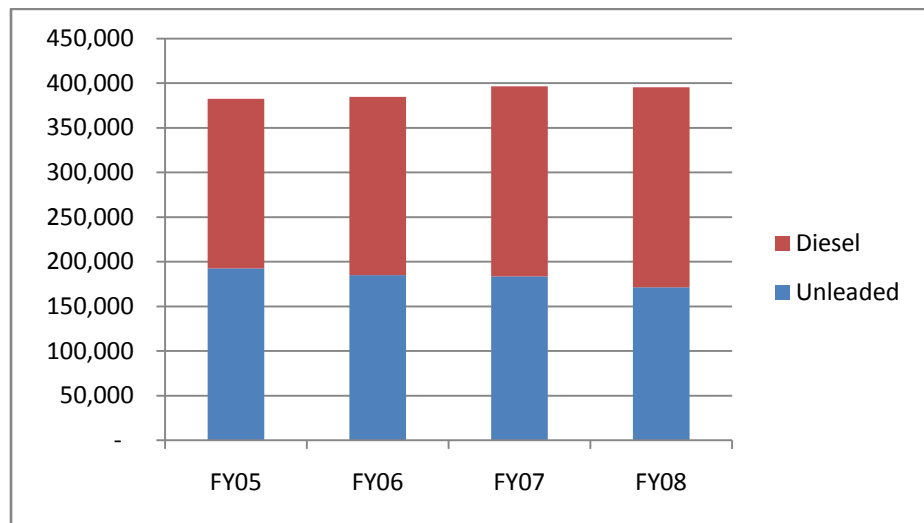
Figure 1
Budget to Actual Expenditures for Fuel in Fiscal Years 2004 – 2008



Source: The City's Financial System (HTE)

From fiscal year 2005 to fiscal year 2008 fuel costs have increased 135 percent. However, fuel usage during this same period has increased by only three percent. Figure 2 below shows the gallons of fuel dispensed during the last four fiscal years.

Figure 2
Gallons of Fuel Dispensed in Fiscal Years 2004 – 2008



Source: The City's Fuel Management System (Phoenix)

The average cost per gallon of fuel in fiscal years 2005, 2006, and 2007 was \$1.38, \$1.87, and \$1.79 respectively. In fiscal year 2008, however, the average cost per gallon was \$3.14.

In December 2004, the City of Bryan solicited bids for gasoline and diesel fuel on behalf of several local agencies including the City of College Station, City of Hearne, Brazos County, Bryan ISD, College Station ISD and Texas A&M University. By contracting for a large volume of fuel with all participating agencies, the City of College Station was able to obtain better pricing with the selected vendor—Brenco Marketing Corp. The joint request for proposal stipulated the terms of the offer were for one year (the original term) with the option for four renewal periods. Within this period, the city has processed two amendments to its original fuel contract and exercised its right to contract renewals; thereby allowing the city to continue to procure fuel from Brenco through December 2009. The contract terms allow for the fluctuation of fuel price through the calculation of fuel cost as described below:

Documented wholesales product cost/gallon¹

+ Per gallon markup²

+ Freight charge (pre-agreed upon rates)

+ Required Texas taxes per gallon

Price per gallon charged to the city

Fleet manages its fuel operations from the Public Works facility and distributes fuel to vehicles and equipment through two fueling sites located at the Public Works and the College Station Utilities facilities. At these fueling sites, a total capacity of approximately 32,000 gallons of fuel is stored in three 87 octane unleaded fuel tanks (20,000 gallon capacity) and two diesel fuel tanks (12,000 gallon capacity). The fuel contractor makes regular deliveries to these two fuel sites upon request. Approximately 80 percent of the fuel dispensed in the last four fiscal years occurred at the Public Work's fueling site.

¹ The wholesale product cost/gallon is based on the OPIS unbraided rack average for Hearne, TX. The Oil Price Information Service (OPIS) is a widely accepted fuel price benchmark for supply contracts and competitive positioning. OPIS provides a weekly publication with fuel prices for each distribution location.

² The markup for unleaded fuel transports less than 7000 gallons is \$0.04/gallon and \$0.0135/gallon for transports greater 7000 gallons. The markup for diesel fuel transports less than 6000 gallons is \$0.04/gallon and \$0.014/gallon for transports greater than 6000 gallons.

In 1990, Fleet implemented the Phoenix fuel management system to track fuel inventoried and dispensed for the city. Phoenix is not integrated with the city's other information systems. Therefore, Fleet personnel must periodically upload fuel transaction data from Phoenix into the city's financial system in order for departments to be properly charged for their fuel consumption.

An eight percent overhead rate is applied to the cost of fuel sold to departments to cover the direct and indirect cost to manage fuel operations. The markup rate of eight percent was initiated in 1990 and there has been no analysis conducted since then to determine the appropriate rates for fuel overhead.

To obtain fuel for city vehicles, users must have a vehicle fuel card and obtain authorization by inputting a valid user id and the vehicle's mileage. Most city equipment is assigned a corresponding fuel card. However, some smaller equipment such as chain saws, weed eaters, and push mowers are primarily fueled through the use of miscellaneous fuel cards. As of March 2009, there were 504 metered vehicles or equipment and 59 miscellaneous cards assigned to the various departments throughout the city. See Table 1 below for a breakdown by department.

Table 1
Vehicles/Equipment & Misc Cards Assigned to Departments

Department	Equipment	Misc Cards	Total
Public Works	123	10	133
Police	76	5	81
Parks & Recreation	60	19	79
Electric	59	4	63
Fire	40	14	54
Wastewater	48	3	51
BVSWMA	33	1	34
Water	26	2	28
Planning & Development	13	0	13
Information Technology	12	0	12
Fiscal Services	11	1	12
Economic Development	2	0	2
Capital Projects	1	0	1
Total	504	59	563

Source: The City's Financial System (HTE)

Audit Objectives

This audit addresses fleet fuel operations policies, procedures, processes and practices. This report answers the following questions:

- Is fuel properly safeguarded and accounted for as to fuel purchased, received, dispensed, and in inventory?
- Is the city complying with applicable laws, contracts, and policies?

Scope and Methodology

This audit was conducted in accordance with government auditing standards, which are promulgated by the Comptroller General of the United States. Audit fieldwork was conducted from February 2009 through April 2009. For most audit tests, fuel transactions between January 1, 2005 and December 31, 2008 were examined. These transactions comprised 101,997 transactions for 1,564,499 gallons of fuel. For some tests, however, fiscal year 2008 or calendar year 2007 and 2008 data was analyzed. The audit methods included identifying and analyzing the amount of fuel purchased and dispensed to city departments for fleet vehicles, and performing specific audit procedures to answer the audit objectives.

To provide assurances that fuel was properly safeguarded and accounted for, I interviewed city staff and industry experts; reviewed contracts and industry practices; observed fuel procurement, delivery, inventory, and reconciliation processes; examined invoices; and analyzed fuel transaction data and configuration settings in the city's financial and fuel management systems. I also assessed the adequacy of physical and system controls present at fueling stations.

To provide assurances that fuel operations complied with applicable state and federal laws and city ordinances and policies, I interviewed city staff. I reviewed the Texas Administrative Code, city ordinances and policies, applicable contracts, and city supporting documentation to determine compliance. In addition, I observed fuel leak testing performed at selected fueling sites, interviewed the third-party vendor that performed these tests, and reviewed the official results of the tests performed.

Findings and Analysis

Opportunities to Better Safeguard & Account for Fuel Exist

Current fuel purchasing and receiving processes are adequate. However, physical and system controls related to inventorying and dispensing fuel should be strengthened. Fleet has made several improvements throughout the course of the audit to address some of these audit findings.

Fuel Purchases are Effectively Administered

Fleet centrally purchases the majority of the city's fuel from Brenco Marketing based on contract prices that were negotiated in December 2004. The unit cost of fuel charged to the city is a product of the following two components: (1) the wholesale product cost per gallon and (2) a per gallon markup rate determined by the gallons of fuel delivered. Table 2 below describes the markup per gallon rate charged to the city under the four possible transport delivery scenarios.

Table 2
Fuel Rates Based on Transport Load

Unleaded Full Transport Truck Delivery	
Minimum transport load	7,000 gallons
Markup per gallon	\$0.0135
Unleaded Less than Full Transport Truck Delivery	
Minimum transport load	250 gallons
Markup per gallon	\$0.04
Diesel Transport Truck Delivery	
Minimum transport load	6,000 gallons
Markup per gallon	\$0.014
Diesel Less than Full Transport Truck Delivery	
Minimum transport load	250 gallons
Markup per gallon	\$0.04

Source: The City's Fuel Contract with Brenco Marketing

The wholesale product cost per gallon is based on the OPIS unbraided rack average for Hearne, TX. The Oil Price Information Service (OPIS) is a widely accepted fuel price benchmark for supply contracts and competitive positioning. OPIS provides a weekly publication with fuel prices for each distribution location.

Fuel is purchased at competitive rates. The City of College Station and several other public organizations within the region cooperatively contract with Brenco Marketing to supply fuel. By contracting for a large volume of fuel with participating agencies, the City of College Station was able to obtain better markup pricing from Brenco. In addition, the city is assured that the price of fuel is purchased at competitive rates because the contract with Brenco stipulates that the wholesale price per gallon for unleaded and diesel is based on OPIS rates.

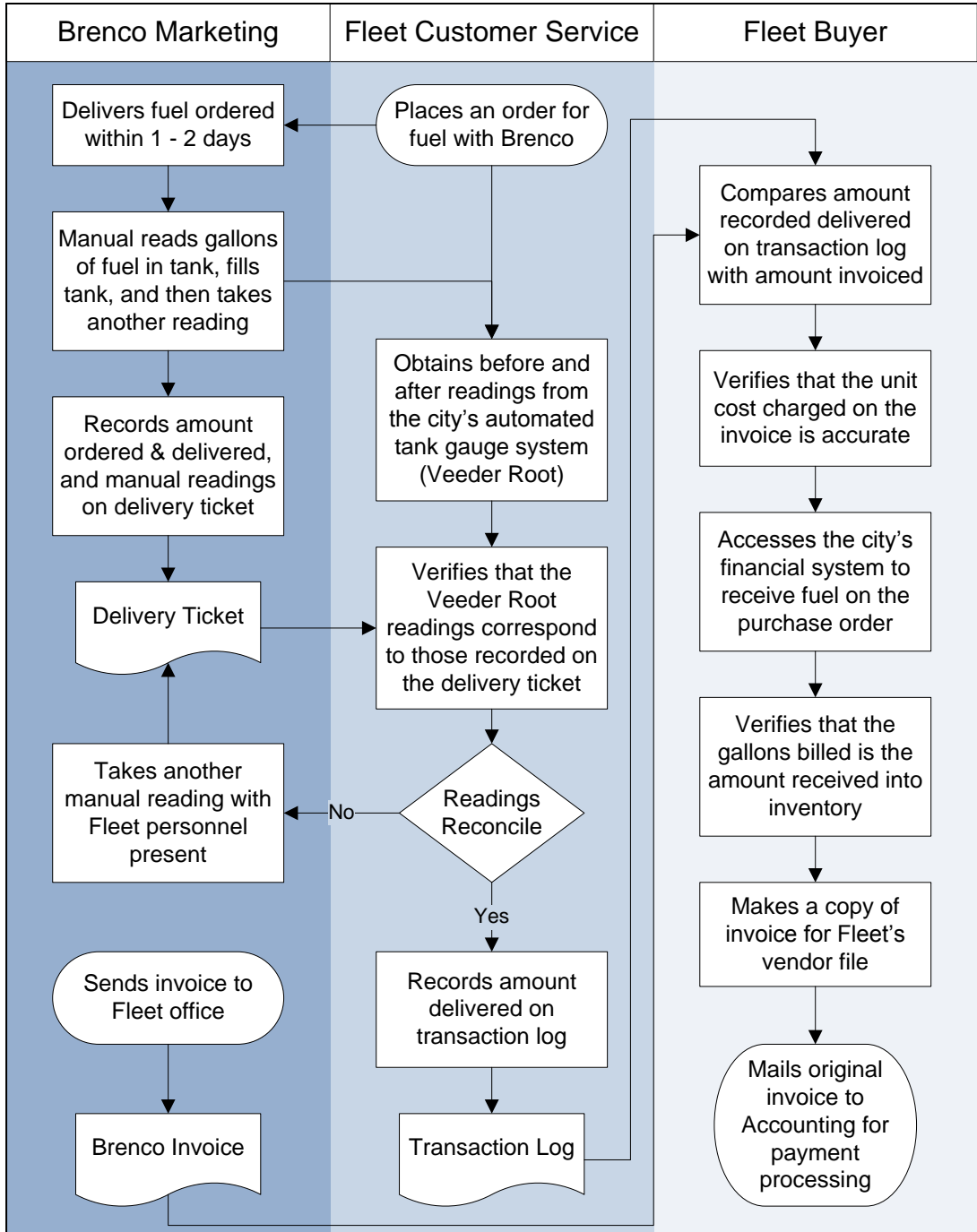
Fuel purchased at retail stations is insignificant. Although the city has a full network of on-site fueling stations, there is some fuel being purchased at retail stations at a premium cost. Most city employees use the on-site fueling stations to fuel city equipment and vehicles with diesel or 87 octane unleaded fuel. However, there are seven Police Department motorcycles that require premium gasoline. Because the city does not purchase and inventory premium gasoline, these police officers fuel their motorcycles at retail stations and use a city purchasing card to pay for the fuel. In fiscal year 2008, there was no other significant use of purchasing cards to purchase fuel for city vehicles or equipment at retail gas stations.

Fuel purchasing processes are acceptable. Fuel is purchased in accordance with the city's purchasing policies and procedures, and fuel deliveries are ordered by authorized Fleet personnel. In addition, fuel purchasing and receiving processes are segregated within the Fleet Services Division. When feasible, Fleet personnel order fuel in larger quantities to obtain better markup pricing by receiving the full transport truck delivery rate. In fiscal year 2008, there were 120 diesel and 81 unleaded fuel orders, and 11 percent of the diesel and 14 percent of the unleaded orders were made at the less than full transport truck delivery rate. The city would have realized a cost savings of \$730 if these orders were made in bulk in order to receive the transport truck delivery rate. However, sometimes it is necessary to order fuel in smaller quantities, such as completely filling the city's fuel tanks to prepare for potential natural disasters.

Fuel Receiving Processes have Improved

During the course of the audit, improvements to the fuel receipt process and documentation of this process have been made by Fleet personnel. Figure 3 below describes the current fuel receipt process.

Figure 3
Flowchart of the Current Fuel Receiving Process



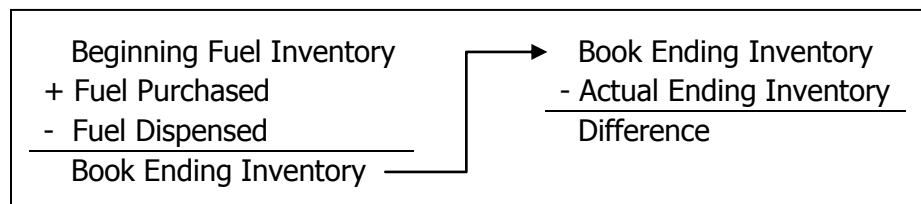
The current fuel receiving process is adequate. The fuel receiving process described in Figure 3, on the previous page, has led to better safeguarding and accounting of fuel purchased and in inventory. However, one improvement could be made to the current fuel receiving process. In addition to the current Fleet Buyer’s fuel receipt processing duties, the Fleet Buyer should also verify contract pricing.

Fleet staff should verify contract pricing. Despite Fleet personnel not verifying contract prices during the receiving process, there were no instances during fiscal year 2008 where Brenco overcharged the city for fuel purchases. However, there is a risk that intentional or unintentional errors could be made in invoicing the correct unit cost according to the city’s contract with Brenco Marketing. To mitigate this risk, Fleet personnel should verify that the invoiced unit cost corresponds with the contract price documented in the city’s fuel agreement with Brenco.

Former Fleet Practices Led to Miscounting Fuel Inventory

An approximate \$205,600 adjustment to fuel inventory was made in fiscal year 2008. This adjustment was the result of the difference between fiscal year 2008 book ending inventory (calculated by Accounting) and actual ending inventory (providing to Accounting by Fleet). Figure 4 below describes how fuel inventory is calculated.

Figure 4
Fuel Inventory Calculation



Former Fleet practices led to this miscounting of fuel inventory. However, many of these practices have recently been corrected. Therefore, large adjustments to fuel inventory should be prevented in the future.

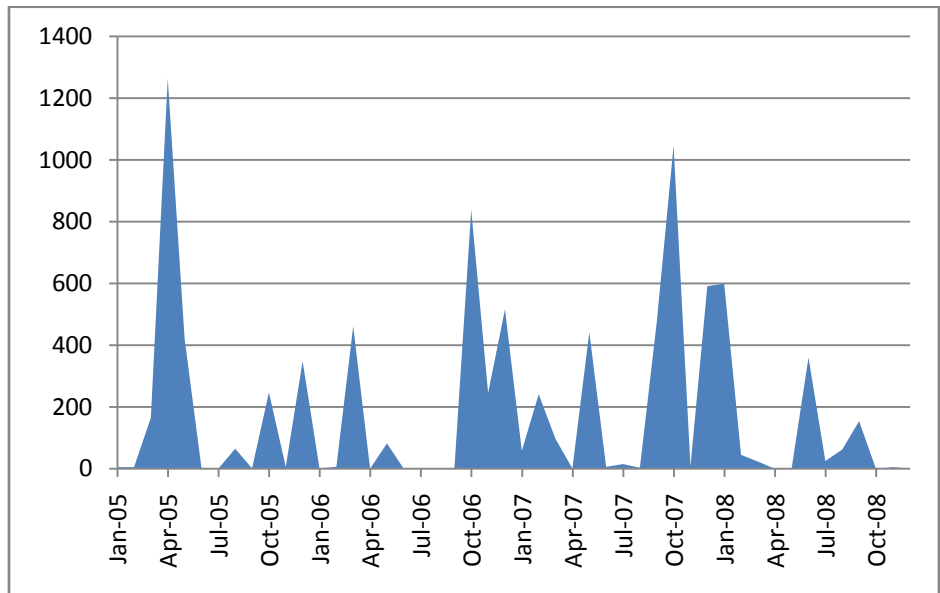
Several thousand fuel system transactions are missing from the city’s financial system. The Phoenix fuel management system is not directly interfaced with the city’s financial system (HTE).

Therefore, Fleet personnel must upload fuel transactional data from Phoenix to HTE in order for the amount of fuel dispensed to be properly accounted for and charged to the appropriate departments. However, many fuel transactions are not uploading into the HTE system during the data import process.

All fuel transactions between January 1, 2005 and December 31, 2008 were examined. These transactions comprised 101,997 transactions for 1,564,499 gallons of fuel. During this same period there were 8,934 transactions for 137,105 gallons of fuel recorded in the fuel management system (Phoenix) that was missing from the city’s financial system. The area chart below (see Figure 5) provides a breakdown of these missing transactions per month.

Figure 5

2005 – 08 Fuel Transactions missing from the City’s Financial System



Source: Comparison of Phoenix to HTE System Data

The total amount of fuel transactions per month was fairly consistent. Between January 1, 2005 and December 31, 2008, fuel transaction per month averaged 2,125 and deviated by plus or minus 185. In addition, months with the highest number of transactions did not correspond to the months with highest number of missing transactions shown in Figure 5 above.

Former fleet practices led to the missing fuel transactions.

The volatile picture shown in Figure 5 is the result of large number of missing transactions during one period followed by a sharp decline in

missing transactions in the next period. These results are partially caused by a former fleet practice to import fuel transactions infrequently. The highest volume of missing transactions occurred during periods when transactions were not frequently imported from Phoenix into HTE. As seen in Table 3 below, there were instances where Fleet personnel would wait up to 28 days before they would import fuel transactions from Phoenix into HTE. According to Fleet staff, some of these instances shown in Table 3 were caused by system equipment malfunctions, or leave or holiday time taken by fleet personnel.

Table 3
 Number of Days between Import Dates
 (Period Reviewed Jan 1, 2005 to Dec 31, 2008)

Range (in days)	Instances	Percentage
Sixteen to twenty-eight	5	1.1%
Fourteen to sixteen	5	1.1%
Eleven to thirteen	8	1.8%
Eight to ten	24	5.4%
Five to seven	67	15.1%
Two to four	116	26.1%
One day	220	49.4%

Source: City's Fuel Management System (Phoenix)

Information system data cleanup is needed. When a new piece of equipment or a vehicle is purchased, information relating to the purchase needs to be entered twice—first in the HTE system and second in the Phoenix system. If some of the essential data is not entered correctly in both systems, problems in importing fuel transactions will occur. I reviewed all calendar year 2007 and 2008 fuel transactions and found 23 instances where essential equipment identifying data did not match. Fleet personnel should do a thorough evaluation and cleanup of the data in both the fuel management system and the equipment file in the city's financial system to ensure that the data is accurate and corresponds to one another.

Automated fuel tank readings have been inaccurate. On November 3, 2008, I observed Fleet personnel take manual readings of the fuel tanks and compared the manual readings to those made by the automated tank gauge system (Veeder Root). During my observations, I found that the Veeder Root system produced

inaccurate readings for one of the fuel tanks. Therefore, I reviewed in-tank inventory reports and found that Veeder Root readings for this fuel tank did not change for nearly the entire month of October 2008.

Improvements have been made to fuel inventory practices.

Recently, Fleet has improved the process by which they import fuel transactions. Currently, Fleet personnel perform daily import of fuel transactions and reconcile the Phoenix system fuel transactional data to the data imported into HTE. If the data does not match, Fleet personnel perform a second import to capture any missing transactions. The malfunctioning automated tank gauge has been repaired and processes have been implemented to prevent unnoticed errors in the tank gauge from occurring in the future. For example, Fleet personnel periodically manually read the amount dispensed from individual fuel pumps and compare these readings to in-tank inventory reports produced by Veeder Root. In addition, the current fuel purchasing and receiving processes should prevent automated tank gauge system errors from going unnoticed.

Fuel Dispensing Controls Should Be Strengthened

To obtain fuel for city vehicles or equipment, users must have a vehicle fuel card and obtain authorization by inputting a valid user id and the vehicle's mileage. Most city equipment is assigned a corresponding fuel card. However, some smaller equipment such as chain saws, weed eaters, and push mowers are primarily fueled through the use of miscellaneous fuel cards. As of March 2009, there were 504 metered vehicles or equipment and 59 miscellaneous cards assigned to the various departments throughout the city. Based on the results of several audit tests, opportunities exist to strengthen controls over how fuel is dispensed in order to better safeguard and account for fuel transactions.

Nearly half of authorized users should be removed from the fuel management system. As of March 2, 2009, there were 1141 individuals authorized in the fuel management system to obtain fuel. Over 200 of these individuals are former employees who should be removed from the fuel management system. Several other authorized fuel users should be removed because they use fuel cards infrequently or not at all. For example, 45 percent of those authorized to obtain fuel did not make a single fuel transaction between January 1, 2008 and March 2, 2009.

Several hundred fuel cards should be removed from the fuel management system. As of March 2, 2009, there were 812 valid fuel cards in the fuel management system, but only 545 of these cards were used to obtain fuel from January 1, 2008 to March 2, 2009. To reduce the risk of fuel theft, non misc fuel cards that are not assigned to current city equipment or vehicles should be removed from the fuel management system. The number of miscellaneous fuel cards should also be reduced.

Odometer reasonability and quantity restrictions should be implemented. There are three main user restrictions available in the fuel management system: odometer reasonability, pump, and quantity restrictions. Fleet has enabled pump restrictions, which limit a vehicles access to certain fuel types in order to prevent a user from fueling a vehicle that requires diesel with gasoline or vice versa. However, odometer reasonability and quantity restriction controls are currently not setup in the fuel management system.

Approximately 25 percent of meter readings are inaccurate. Odometer reasonability checks the difference between two user-entered odometer readings, and determines if the difference is within a range the city specified for that card. However, the fuel management system's odometer reasonability control is deactivated for all fuel cards. I reviewed all metered transactions from January 1, 2005 through December 31, 2008 and found that approximately 25 percent of the readings during this period were entered incorrectly. Table 4 below summarizes the results of this review.

Table 4
Percentage of Inaccurate Meter Readings from 2005 – 2008

Year	Bad Readings	Total Fuel Trans	Percentage
2005	5,897	25,737	23%
2006	5,727	25,942	22%
2007	6,203	24,851	25%
2008	6,838	25,467	27%
Total	32,515	131,638	25%

Source: City's Fuel Management System (Phoenix)

Odometer entries can be used to calculate miles per gallon or cost per mile, which can be used by Fleet to track driver and vehicle efficiency. In addition, odometer readings and efficiency data is used to schedule

preventative maintenance and plan for vehicle or equipment replacement. Unreliable odometer readings greatly impact the ability of Fleet personnel to effectively manage the city's 504 metered vehicles and equipment. Consequently, Fleet should implement the fuel management system's odometer reasonability controls to prevent high percentage of inaccurately entered meter readings.

There appears to be fuel dispensed exceeding vehicle tank capacity. I reviewed fuel transactions between January 1, 2005 and December 31, 2008 and found 5,809 transactions where the amount fueled exceeded the vehicles tank capacity (as recorded in the financial system's equipment inventory file). These fuel transactions accounted for 30,450 gallons of fuel that exceeded fuel tank capacities. On average, the amount of fuel dispensed that exceeded vehicles tank capacity for these 5,809 fuel transactions was 5.24 gallons per transaction. Table 5 below describes the fuel dispensed that exceeded vehicles tank capacity (during the period reviewed) broken down by vehicle type.

Table 5
Fuel Dispensed Exceeding Vehicles Tank Capacity from 2005 – 2008

Vehicle Description	Trans. Over Tank Capacity	Gallons Over Tank Capacity	Avg. Gal. Over Tank Capacity
Motorcycles	2,539	8,366	3.29
Heavy Equipment	1,304	10,026	7.69
Pickup Trucks	1,126	7,550	6.71
Sedans	632	3,340	5.28
Light Equipment	142	1,054	7.42
Vans	44	56	1.27
Patrols Cars	22	58	2.64
Total	5,809	30,450	5.24

Source: City's Fuel Management System (Phoenix) & HTE's Equipment Inventory File

The fuel management system's quantity restriction controls are used to specify how much product (fuel or diesel) a particular fuel card can access. Quantity restriction is often set to match a vehicle's tank size.

According to city staff, users fueling a vehicle with the vehicle's fuel card and then continuing to use the card to fuel gas cans for unmetered equipment (e.g. mowers, weed eaters, etc.) is a common practice—despite the availability of miscellaneous fuel cards. Another reported practice, is the loaning of authorized user id numbers to

employees who are not authorized in the system to obtain fuel. Lack of personal accountability caused by these practices make it difficult to accurately determine what fuel dispensed (if any) that exceeded vehicle tank capacity is because of theft.

In addition, fuel tank capacity data recorded in the equipment inventory file may not be completely accurate. I performed a preliminary review of the equipment inventory file to assess reasonableness of the fuel tank capacity data, and I found that this data appeared to be reasonable. However, physically inspecting every metered vehicle and equipment to verify the accuracy of the tank capacity data in the equipment inventory file was not within the scope of this audit. Therefore, Fleet should review the equipment inventory file and make any needed corrections to tank capacity data. One way vehicle tank capacities could be verified is during the physical inventory of city assets conducted by Accounting during the summer of 2009.

Miscellaneous fuel card transactions have a higher risk of abuse. Because miscellaneous fuel cards are not assigned to any particular individual, vehicle, or equipment; it is difficult to identify inappropriate or wasteful use of miscellaneous fuel card transactions. In addition, odometer reasonability controls and quantity restrictions related to tank capacity can't be implemented for miscellaneous fuel cards.

I also found that a disproportionate amount of the largest transactions are made on miscellaneous fuel cards. For example, there were 27 fuel transactions of 100 gallons or more between January 1, 2005 and December 31, 2008, and all of these transactions were made with miscellaneous fuel cards. Table 6, on the next page, categorizes miscellaneous fuel card transactions by specified fuel quantity ranges between January 1, 2005 and December 31, 2008.

Table 6
Miscellaneous Card Transactions from 2005 – 2008

Fuel Quantity Range (gal)	Misc Card Transactions	% of Total Misc Cards	Total Fuel Qty (gal)
>300.00	1	0.02%	320
200.00 – 300.00	3	0.07%	660
100.00 – 199.99	24	0.59%	3,120
75.00 – 99.99	65	1.61%	5,550
50.00 – 74.99	180	4.46%	10,660
25.00 – 49.99	252	6.25%	8,670
0.01 – 24.99	<u>3,510</u>	<u>86.99%</u>	<u>29,330</u>
	4,035	100%	58,310

Source: City's Fuel Management System (Phoenix)

If the city continues to use miscellaneous fuel cards, Fleet should monitor miscellaneous fuel card usage by employee and supply user's supervisors with miscellaneous fuel card usage reports. By doing this, employee's supervisors should be capable of identifying instances of inappropriate fuel use. Fleet should also conduct an analysis of miscellaneous card use, which should consider the following:

1. Assigning cards to equipment. Fleet should identify potential unmetered equipment that can be assigned to each miscellaneous fuel card.
2. Setting justifiable monthly limits. Fleet should identify reasonable monthly limits that can be placed on each miscellaneous card based on the historical use of unmetered equipment appropriate to be fueled with the card.
3. Assessing user appropriateness. Fleet should identify who uses miscellaneous cards and determine if these users are appropriate for the card's intended use.

Employee instruction is needed. Employees, authorized to fuel vehicles and equipment, have not been given consistent instruction on the appropriate fueling procedures. Fleet should draft fueling procedures to be distributed to current authorized users, and provide these instructions to every new user.

Fueling site physical controls are adequate. Each of the fueling sites contains some level of physical security controls. For example, the College station Utilities site fuel pumps are located within the facility surrounded by a 10-foot fence with the entrance

and exit gates remaining closed—only authorized city employees have access to open the gate. At this time, access is not limited by a fence or gates to the parking area at the Public Works fuel site. However the Public Works site fuel pumps are located behind the police station. In addition, fuel tanks at the Public Works site are secured by locks.

Fuel Overhead Rates Should Be Examined

An eight percent overhead rate is applied to the cost of fuel sold to departments to cover the direct and indirect cost to manage fuel operations. The markup rate of eight percent was initiated in 1990 and there has been no analysis conducted since then to determine the appropriate rates for fuel overhead. In addition, the markup rate is not consistently applied for all fuel transactions. Between January 1, 2005 and December 31, 2008, I identified 3,284 transactions that did not have a markup rate of 8 percent—most of which had a 0% markup rate. Fleet should conduct an analysis to determine the overhead cost of administering fuel and develop a markup rate that reflects those costs. In addition, the equipment inventory file should be examined to ensure that all vehicles and equipment are assessed the same markup rate.

The City is Complying with State and Federal Laws

The Energy Policy Act of 2005 requires states to make certain underground storage tanks (UST) information available to the public. Therefore, Texas State law requires owners of underground storage tanks (USTs) to do the following:

- Register each UST with the Texas Commission on Environmental Quality (TCEQ) — even if it is empty or unused.
- Each year, renew the delivery certificate for your facility at least 30 days before the current certificate expires.
- Include proof of financial assurance with all self-certification forms.
- Make sure that each UST tank fill pipe is clearly labeled according to State rules.
- Notify TCEQ at least 30 days before beginning construction work on the UST facility or if any changes in ownership at the UST facility.

- Have a certified UST contractor registered with TCEQ perform fuel leak detector tests once per year per state regulations. For tanks with mechanical leak detectors, fuel line tests must also be conducted.

Public Works Department underground storage tanks holds one (1) 8,000 gallons tank for unleaded fuel and one (1) 8,000 gallons tank for diesel. The Utility Service Center underground storage tanks holds two (2) 6,000 gallons tanks for unleaded and one (1) 4,000 gallons tank for diesel. Sufficient documentary, physical, and testimonial evidence was obtained during the course of the audit to conclude that tank installation, inspection, maintenance and removal meet state and federal regulations.

Recommendations

In addition to the changes that Fleet has already implemented, the city's fuel operations need a few slight improvements, encompassed in the following audit recommendations. Implementing these recommendations will strengthen internal controls to further prevent any inappropriate fuel use and help better manage city vehicles and equipment.

1. The Director of Public Works should instruct the Fleet Buyer to verify that the invoiced unit cost corresponds with the contract price documented in the city's fuel agreement with Brenco. There are four steps to verifying the contract price. (1) Obtain the Oil Price Information Service (OPIS) publication for Hearne, TX. (2) Verify that the date on the OPIS publication matches the order date documented on the invoice and the transaction log. (3) Identify the UBD rack average rates for unleaded (UNL) and diesel (ULS) on the OPIS publication, and add the appropriate markup rate based on the gallons delivered. (4) Compare the unit costs identified in step three to the unit costs on the invoice.
2. The Director of Public Works should direct Fleet personnel to do a thorough evaluation and cleanup of the data in both the fuel management system (Phoenix) and the equipment file in the city's financial system to ensure that the data is accurate and corresponds to one another. Former employees and current employees, who no longer have a need to fuel city vehicles or equipment, should have their fuel pump authorization deactivated from the Phoenix system. In addition, non misc fuel cards that are not assigned to current city equipment or vehicles should be deactivated in the Phoenix system.
3. The Director of Public Works should direct Fleet staff to activate the fuel management system's odometer reasonability control for all fuel cards. Prior to this control being implemented, Fleet should develop a communications plan to instruct all fuel users about the importance of entering correct odometer readings and to communicate the proper fueling procedures. Once odometer reasonability controls are implemented, Fleet should consider using odometer entries to calculate miles per gallon or cost per mile in order to track driver and vehicle efficiency.

4. The Director of Public Works should direct Fleet personnel to activate the fuel management system's quantity restriction controls for all fuel cards. Quantity restriction should be set to match a vehicle's tank size. Therefore, Fleet staff should verify that tank capacity data recorded in the city's financial system's equipment inventory file is complete and accurate prior to implementing quantity restriction controls. The Phoenix system also has the ability to set daily and monthly fuel quantity limits for fuel cards. Daily and monthly limits should be set in accordance with cardholder needs in order to prevent users from circumventing quantity controls by fueling multiple times within the same day or more than reasonable within a month. Therefore, Fleet staff should work with department fuel users and conduct a fuel usage analysis to identify appropriate daily and monthly fueling limits to be placed on fuel cards.
5. The Director of Public Works should direct Fleet staff to monitor miscellaneous fuel card usage by employee and supply users' supervisors with miscellaneous fuel card usage reports. Department supervisors should be instructed by Fleet to use these reports to help them identify possible instances of inappropriate fuel use. Fleet staff should also conduct an analysis of miscellaneous card use. This analysis should identify the following: (1) potential unmetered equipment that can be assigned to each miscellaneous fuel card, (2) reasonable monthly limits that can be placed on each miscellaneous card based on the historical use of unmetered equipment appropriate to be fueled with the card, (3) who uses miscellaneous cards and determine if these users are appropriate for the card's intended use, and (4) the miscellaneous cards that should be deactivated from the system.
6. The Director of Public Works should direct Fleet staff to draft fueling procedures to be distributed to current authorized users, and provide these instructions to every new user.
7. The Director of Public Works should direct Fleet staff to conduct an analysis to determine the overhead cost of administering fuel and develop an overhead rate that reflects those costs. In addition, the equipment inventory file should be examined to ensure that all vehicles and equipment are assessed the same overhead rate.

Management Response



MEMO TO: TY ELLIOT, CITY INTERNAL AUDITOR

THROUGH: DAVID NEELEY, ASSISTANT CITY MANAGER

FROM: Mark Smith, Director of Public Works

CC: Charles McLemore, Assistant PW Director
Pete Caler, Assistant PW Director / BVSWMA Director
Bill Johnson, Fleet Superintendent
Luke Irvin, Budget & Management Analyst

SUBJECT: Audit of the City's Fleet Fuel System

DATE: MAY 26, 2009

The following is the Public Works Department response to the audit of the City's Fleet Fuel Operations. There is a response describing how each of the seven recommendations will be addressed.

1. RECOMMENDATION: The Director of Public Works should instruct the Fleet Buyer to verify that the invoiced unit cost corresponds with the contract price documented in the city's fuel agreement with Brenco. There are four steps to verifying the contract price. (1) Obtain the Oil Price Information Service (OPIS) publication for Hearne, TX. (2) Verify that the date on the OPIS publication matches the order date documented on the invoice and the transaction log. (3) Identify the UBD rack average rates for unleaded (UNL) and diesel (ULS) on the OPIS publication, and add the appropriate markup rate based on the gallons delivered. (4) Compare the unit costs identified in step three to the unit costs on the invoice.

RESPONSE: Management concurs with the recommendation and will instruct the Fleet Buyer to verify that the invoiced unit price corresponds with the contract price.

2. RECOMMENDATION: The Director of Public Works should direct Fleet personnel to do a thorough evaluation and cleanup of the data in both the fuel management system (Phoenix) and the equipment file in the city's financial system to ensure that the data is accurate and corresponds to one another. Former employees and current employees, who no longer have a need to fuel city vehicles or equipment, should have their fuel pump authorization deactivated from the Phoenix system. In addition, non misc fuel cards that are not assigned to current city equipment or vehicles should be deactivated in the Phoenix system.



RESPONSE: Management concurs with the recommendation and will direct that the data in the fuel management system and city's financial system be cleaned up as described to ensure that the data is accurate in both systems

3. RECOMMENDATION: The Director of Public Works should direct Fleet staff to activate the fuel management system's odometer reasonability control for all fuel cards. Prior to this control being implemented, Fleet should develop a communications plan to instruct all fuel users about the importance of entering correct odometer readings and to communicate the proper fueling procedures. Once odometer reasonability controls are implemented, Fleet should consider using odometer entries to calculate miles per gallon or cost per mile in order to track driver and vehicle efficiency.

RESPONSE: Management concurs with the recommendation and will direct the implementation of the fuel management system's odometer reasonability controls for vehicles after meeting with fleet coordinators from each department to develop a training and informational program.

4. RECOMMENDATION: The Director of Public Works should direct Fleet personnel to activate the fuel management system's quantity restriction controls for all fuel cards. Quantity restriction should be set to match a vehicle's tank size. Therefore, Fleet staff should verify that tank capacity data recorded in the city's financial system's equipment inventory file is complete and accurate prior to implementing quantity restriction controls. The Phoenix system also has the ability to set daily and monthly fuel quantity limits for fuel cards. Daily and monthly limits should be set in accordance with cardholder needs in order to prevent users from circumventing quantity controls by fueling multiple times within the same day or more than reasonable within a month. Therefore, Fleet staff should work with department fuel users and conduct a fuel usage analysis to identify appropriate daily and monthly fueling limits to be placed on fuel cards.

RESPONSE: Management concurs with the recommendation. Fleet staff will be directed to work with departmental fleet coordinators to conduct a fuel usage analysis to determine appropriate fueling limits and implement the fuel management system's quantity restriction controls as described for all fuel cards.

5. RECOMMENDATION: The Director of Public Works should direct Fleet staff to monitor miscellaneous fuel card usage by employee and supply user's supervisors with miscellaneous fuel card usage reports. Department supervisors should be instructed by Fleet to use these reports to help them identify possible instances of inappropriate fuel use. Fleet staff should also conduct an analysis of miscellaneous card use. This analysis should identify the following: (1) potential unmetered equipment that can be assigned to each miscellaneous fuel card, (2) reasonable monthly limits that can be placed on each miscellaneous card based on the historical use of unmetered equipment appropriate to be fueled with the card, (3) who uses miscellaneous cards and determine if these users are appropriate for the



card's intended use, and (4) the miscellaneous cards that can be deactivated from the system.

RESPONSE: Management concurs with the recommendation. Fleet staff will be directed to work with departmental fleet coordinators to conduct miscellaneous fuel card usage analysis as described to identify possible instances of inappropriate fuel use and to take actions to prohibit inappropriate fuel card activity.

6. RECOMMENDATION: The Director of Public Works should direct Fleet staff to draft fueling procedures to be distributed to current authorized users, and provide these instructions to every new user.

RESPONSE: Management concurs with the recommendation and will direct the fleet staff to draft fueling procedures to be provided to all authorized users and to new users added to the system.

7. RECOMMENDATION: The Director of Public Works should direct Fleet staff to conduct an analysis to determine the overhead cost of administering fuel and develop an overhead rate that reflects those costs. In addition, the equipment inventory file should be examined to ensure that all vehicles and equipment are assessed the same overhead rate.

RESPONSE: Management concurs with the recommendation and will direct the Fleet staff to determine the overhead cost for administering the fuel system and establish an overhead rate that accurately reflects those costs. The Fleet staff will examine the equipment inventory to ensure that all vehicles and equipment are assessed the correct overhead rate.