



## **INTERNAL AUDIT REPORT**

DATE: July 27, 2017

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer  
Glenn Brown, Deputy Chief Administrative Officer  
Aldona Valicenti, Chief Information Officer  
Geoff Reed, Commissioner of General Services  
William O'Mara, Commissioner of Finance & Administration  
Jamshid Baradaran, Director of Facilities & Fleet Management  
Phyllis Cooper, Director of Accounting  
Todd Slatin, Director of Purchasing  
Susan Straub, Communications Director  
Wanda Kean, Deputy Director of Facilities & Fleet Management  
Urban County Council  
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit  
Teresa Gipson, CFE, Internal Auditor

RE: Fleet Fuel Costs Audit

### **Background**

Lexington contracts with Speedway SuperAmerica LLC (SSA) and Riley Oil, Inc. to provide gasoline and diesel fuel for the majority of its fleet. Purchases from these vendors are made via fuel cards assigned to each vehicle in addition to a Personal Identification Number (PIN) assigned to each authorized driver. When a fuel purchase occurs, an



odometer reading must be entered at the fuel pump keypad which may be used in fuel analysis and tracking purposes. The purchases are then processed in the respective vendor's automated purchasing system and are paid for by the Division of Facilities & Fleet Management. Fuel purchase costs are allocated to the various Divisions based upon the fuel purchases of their assigned vehicles. Lexington is also contracted to purchase bulk fuel from Woodford Oil that is primarily used by the Division of Parks and Recreation.

In 2014, Lexington started using CNG (Compressed Natural Gas) fuel for some of its Waste Management vehicles. Currently Lexington has 46 CNG vehicles in their fleet. The FY 2017 budget for fuel purchases was \$3,938,788.

### **Scope and Objectives**

The general control objectives for the audit were to provide reasonable assurance that:

- Vendor contracts exist and fuel purchases are from approved vendors
- Vendor billings agree to the contract amount and are properly supported
- Adequate controls exist to ensure fuel purchases are for LFUCG vehicles only
- Fuel purchases are effectively monitored by management and comply with policies and procedures
- Fuel purchases are reasonable in nature and do not exceed fuel tank capacity
- Active employees are the only users of fleet cards and PINs

Audit results are based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provide reasonable, but not absolute, assurance that controls are in place and effective. In addition, effective controls in place during an audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

The scope of our audit included vendor invoiced transactions occurring from July 1, 2016 through February 28, 2017.



## **Statement of Auditing Standards**

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

## **Audit Opinion**

In our opinion, the controls and procedures provided reasonable assurance that the general control objectives were being met. Opportunities to improve controls are included in the Summary of Audit Findings.

## **Priority Rating Process**

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks and/or costs associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks and/or costs associated with the process being audited.

Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.



## SUMMARY OF AUDIT FINDINGS

### **Finding #1: Fuel Contract Expired**

**Priority Rating: High**

#### **Condition:**

At the beginning of fieldwork, we noted that the price contract for Riley Oil Company had expired on March 17, 2017 and the replacement price contract had not been presented to Council for approved. Prior to the end of fieldwork, the price contract had been rebid and accepted, but had not been approved by Council.

#### **Effect:**

Contract pricing may not be honored by the vendor in the event of an expired contract. Expired contracts may also result in the loss of certain indemnifications for the LFUCG.

#### **Recommendation:**

We recommend that timely monitoring of price contract end dates be performed so that the LFUCG maintains consistent pricing for the purchase of fuel commodities.

#### **Director of Purchasing Response:**

Purchasing is implementing the contract module in our procurement system IonWave, which allows us to automatically send reminders to buyers, Division users, and Directors regarding the expiration dates of contracts. However, purchasing relies on the Division user to provide revised specifications for re-bids and if this is not done in a timely manner there may be a lapse between old and new contracts.

#### **Commissioner of Finance & Administration Response:**

I concur with the Director of Purchasing's response.

### **Finding #2: Vendor Invoices Need OPIS Price Breakdown**

**Priority Rating: High**

#### **Condition:**

SSA is LFUCG's largest supplier of diesel and gas. Their invoices include the transaction date, vehicle number, card number, and transaction type; however, they do not detail the gallons or the OPIS daily pricing charged plus the markup fees and applicable taxes per transaction.



We were also informed by Fleet management that the SuperFleet software has a glitch that causes it to invalidate one transaction when there have been two fuel transactions on the same day by the same employee for the exact same gallons of fuel. The SuperFleet system will kick out the first transaction and only detail the second transaction. This error must be noted and corrected by Fleet management during their reconciliation of the electronic file download.

**Effect:**

It was difficult to reconcile invoices to the daily OPIS price plus markup in the absence of the detailed price breakdowns. Fleet management spends additional hours reconciling the SuperFleet electronic download when transactions are omitted.

**Recommendation:**

We recommend that SSA provide additional invoice details to include the OPIS price plus any markup and/or taxes and discounts per fuel transaction. We also recommend that Fleet Services continue to work with the software vendor to remove the SuperFleet software glitch so that invoice downloads can submit all fuel transactions.

**Deputy Director of Facilities and Fleet Management Response:**

Fleet Services has made a request of Speedway to modify the invoices to show the actual cost per transaction. The government is currently in the middle of a 1-year contract with renewable option and since the file transfer protocol (ftp) and the invoice details are terms of the contract, Speedway is under no obligation to make the changes immediately. However, Speedway will begin using a third party to submit the invoices in a few months and have agreed to try to implement the new format at that time.

The glitch producing an omitted transaction is a systematic issue with the software sometimes recurring with a code release of an upgrade. The software manufacturer promptly makes the correction when notified and the process of reconciling the transactions immediately reveals the omission.

**Director of Facilities and Fleet Management Response:**

I concur with the Deputy Director's Comments.



**Commissioner of General Services Response:**

I concur with the Director's Comments.

**Finding #3: Improper Fleet Fuel Card Purchases Identified**

**Priority Rating: High**

**Condition:**

Our test work identified 33 instances where fuel purchases exceeded a vehicle's tank capacity, with these purchases ranging from one gallon to 23.2 gallons (and an average of 5.06 gallons) above tank capacity. Eleven of these transactions were explained as employees filling up their vehicle then filling up fuel tanks for small engine equipment (ten of which occurred in Parks). Other explanations included filling up another Police motorcycle, fueling an auxiliary tank, and six Waste Management drivers saying they couldn't remember why this occurred. Eleven of these exceptions were identified as having occurred because FleetWave contained the wrong tank size for the vehicle.

Fleet Usage Procedures and Guidelines specifically states, "Fuel cards are assigned to a specific unit and should never be used to fuel another unit".

**Effect:**

Purchases in excess of tank capacity are a clear indicator of improper use of fleet fuel cards.

**Recommendation:**

Fleet Usage Procedures and Guidelines dictating that only specific units are to be filled with fleet cards should be strictly adhered to. Division Directors should take appropriate disciplinary action to address invalid odometer readings as stipulated in the "Fleet Policy Memo-Inputting Accurate Odometer Reading at Time of Fueling" contained in the PIN Assignment Packet which is issued to all new fleet card users. The incorrect tank sizes in FleetWave should be corrected to eliminate false positives when tests for purchases in excess of tank capacity occur.

**Deputy Director of Facilities & Fleet Management Response:**

Fleet Services has reviewed and updated all of the fuel tank sizes in the fleet management system and will continue to verify and enter the correct tank sizes for new units added to the fleet.



Fleet Services will continue to send invalid odometer reports to the Division Directors and recommend disciplinary action be taken for repeat offenders.

**Director of Facilities & Fleet Management Response:**

I concur with the Deputy Director's Comments.

**Commissioner of General Services Response:**

I concur with the Director's Comments.

**Finding #4: Incomplete Fuel Tank Capacity Data in Fleetwave**  
**Priority Rating: High**

**Condition:**

We performed fuel analysis testing that included determining the fuel tank capacity for vehicles and comparing this information to the vehicle fuel transactions. Fuel purchases that exceed tank capacity are an indication of possible inappropriate activity. We noted that 82 vehicles included in Fleetwave did not include a fuel tank capacity.

**Effect:**

The absence of fuel tank capacity for these vehicles prevents an important analysis of fuel purchases.

**Recommendation:**

We recommend that Fleet Services add the fuel tank capacity to all vehicle profiles in Fleetwave.

**Deputy Director of Facilities & Fleet Management Response:**

Fleet Services has reviewed and updated all of the fuel tank sizes in the fleet management system and will verify and enter the correct tank sizes for new units added to the fleet (also referenced in Finding #3).

Research of the system files revealed the "exceeded fuel tank capacity" feature in the fleet management system did not flag some of the overfills because the fuel variance was set too high thus allowing the driver to go over the tank capacity while the transaction processed as normal in Fleetwave. The variance has been lowered and



future transactions exceeding tank capacity will be flagged, investigated and reported to the affected Divisions.

**Director of Facilities & Fleet Management Response:**

I concur with the Deputy Director's Comments.

**Commissioner of General Services Response:**

I concur with the Director's Comments.

