



Jerry E. Abramson
Mayor

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Metro Council

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Office of Internal Audit

Public Works
and Assets

Fleet Services Fuel
Administration



Audit Report

Office of Internal Audit

Public Works and Assets

Fleet Services Fuel Administration

February 2007



Public Works
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Fleet Services Fuel
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Transmittal Letter

February 22, 2007

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Subject: Audit of Fleet Services Fuel Administration

Introduction

An audit of the Louisville Metro Fleet Services division fuel administration was performed. Fleet Services is responsible for the administration of vehicle fuel activity. The primary focus of the audit was the operational and fiscal administration of vehicle fuel. This included how Fleet Services processes, records, and monitors the activity.

The examination was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

Scope

The operating procedures for administering fleet fuel activity were reviewed through interviews with key personnel. The focus of the review was the operational and fiscal administration of the activity. Tests of sample data were performed for transactions from the period August 1, 2006 to September 30, 2006. Activity reviewed included individual fuel transactions recorded on the fuel supplier's system reports, fuel transactions recorded on Louisville Metro fleet software system, and Metro financial system postings. The review did not include vehicles maintained by the Louisville Fire Department or fuel disbursed for small equipment at satellite sites managed by individual Metro departments (e.g., Zoo, Parks).

The review included assessing whether activity was processed, recorded, and monitored accurately and appropriately. The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report. The examination would not identify all weaknesses because it was based on selective review of procedures and data.

Opinion

It is our opinion that the administration of fleet fuel activity is weak. The internal control rating is on page 5 of this report. This rating quantifies our opinion regarding the internal controls, and identifies areas requiring corrective action.

Opportunities to strengthen the administration of fleet fuel activity were noted in several areas. Examples of these include the following.

- **Monitoring and Reconciliation.** There is not adequate reporting and monitoring of individual vehicle transactions, including fuel activity. Routine user reports are not available from Metro's fleet management system to provide adequate oversight of activity. Metro Fleet Services management is aware of these reporting weaknesses.
- **Fuel Charges.** Complete monitoring of fuel charges is not performed. The contract with the fuel supplier provides for two methods of calculating fuel costs, the most beneficial of which is applied for each transaction. Sufficient information is not provided on the supplier's reports to adequately verify fuel charges. Ultimately, this hinders the ability to ensure that payments to the fuel supplier comply with the contract.
- **Policies and Procedures.** Comprehensive, documented policies and procedures for the fleet fuel administration activity were not available. While fleet staff had notes for some processes, there was not a complete manual that presents the duties that Fleet Services and business office staff use to manage fuel activity. This may lead to inconsistencies and inefficiencies with processing, along with inadequate monitoring.
- **Fleet Management Records.** Some issues were noted regarding proper authorization for computer access. This results in limited accountability for activity recorded. There were also issues with information recorded in the files used to manage fleet activity. This included cases in which information in the various computer systems did not agree. Inaccurate information recorded in activity files limits their use as management and monitoring tools.

In addition, some files are not maintained in a consistent manner. This reduces the efficiency of the filing systems and increases the risk that information could not be retrieved.

The implementation of the recommendations in this report will help improve the internal control structure and effectiveness of the administration of fleet fuel activity.

Corrective Action Plan

Representatives from Metro Fleet Services division have reviewed the results and are committed to addressing the issues noted. Fleet Service's corrective action plans are included in this report in the Observations and Recommendations section. We will continue to work with Fleet Services to ensure the actions taken are effective to address the issues noted.

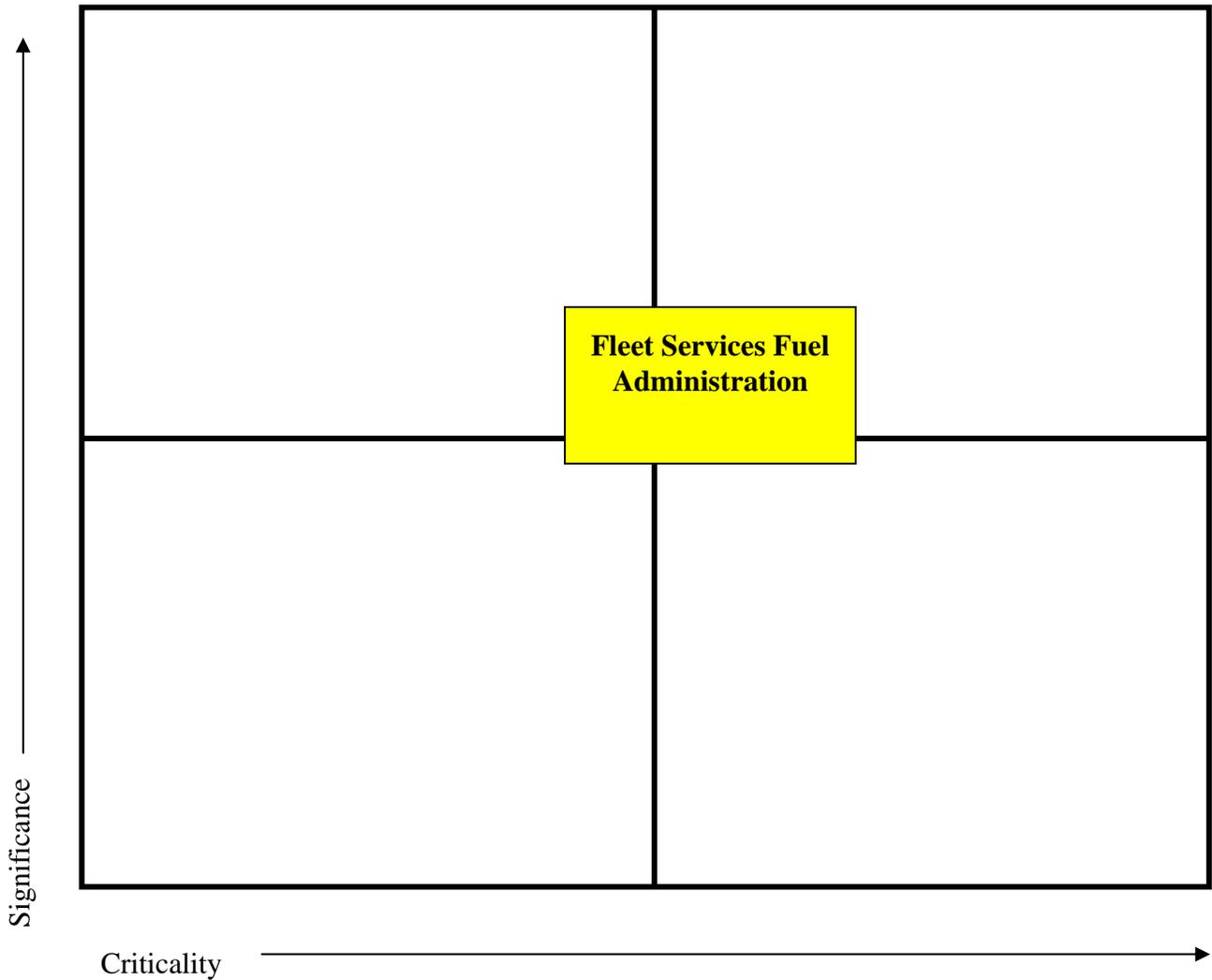
Sincerely,



Michael S. Norman, CIA, CFE, CGAP
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
Louisville Metro Council Members
Deputy Mayors
Director of Public Works and Assets

Internal Control Rating



<u>Legend</u>			
<u>Criteria Issues</u>	Satisfactory	Weak	Inadequate
	Not likely to impact operations.	Impact on operations likely contained.	Impact on operations likely widespread or compounding.
Controls	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
Policy Compliance	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
Image	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
Corrective Action	May be necessary.	Prompt.	Immediate.

Background

Metro Fleet Services performs the specification, intake, maintenance, repair, and disposition activities related to Metro's fleet of vehicles and equipment. Fleet composition is diverse, including sedans and pickup trucks, garbage packers, street sweepers, and tandem axle dump trucks. In total, Fleet Services has responsibility for more than 4,400 items (2,600 vehicles). This does not include vehicles assigned to the Louisville Fire Department. The Fire fleet activity is managed by the department and is not included on the Metro Fleet Service's systems.

A new fleet fueling system and procedures was implemented in June 2006. Fleet Services administers fleet fuel activity in accordance with a contract established with a commercial supplier. Metro fleet users are required to purchase fuel from one of the approximate 32 commercial fuel sites within the Louisville Metro area or from one of the 3 Metro Government fleet fueling sites. Fuel purchases are managed through the use of personal identification numbers assigned to individual employees, in conjunction with a fuel card assigned to individual vehicles.

Metro fleet fuel purchases are recorded on a computer system managed by the contract fuel supplier. The reports provide details for each transaction, such as the purchaser, vehicle receiving fuel, amount of fuel, cost of fuel, date and time of the transaction. Periodically, this information is interfaced with the Metro fleet management computer system and the cost is posted to the Metro financial system. Business office staff supporting fleet operations process periodic payments for fuel to the supplier. Ultimately, all vehicle costs (e.g., fuel, maintenance, parts) are charged to the user departments.

The Louisville Metro fiscal year 2007 budget includes approximately \$6.9 million for automotive fuel costs. A chart presenting the fleet system user departments' percentage of the \$6.9 million budgeted fuel costs for fiscal year 2007 is included as the appendix of this report.

This was a scheduled audit.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit previously audited the former City of Louisville Public Works Fleet Services Division activity in July 1993 and September 1995. Unless otherwise noted, all prior weaknesses have been satisfactorily addressed.

III. Statement of Auditing Standards

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International

Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

A formal study of the internal control structure was conducted in order to obtain a sufficient understanding to support the final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

The examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials/Action Plan

A draft report was issued to Public Works and Assets on January 23, 2007. An exit conference was held at the Office of Internal Audit on February 12, 2007. Attending were Ted Pullen, Matt Maskey and Corey Niemeier representing Public Works and Assets; Michael Norman representing Internal Audit. Final audit results were discussed.

The views of Public Works and Assets officials were received on February 21, 2007 and are included as corrective action plans in the Observations and Recommendations section of the report.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

*“The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or **no longer than** 30 days of receipt of the draft report.”*

The Public Works and Assets response was provided within this required timeframe.

Observations and Recommendations

Scope

The operating procedures for administering Metro's fleet fuel activity were reviewed. The focus of the review was the operational and fiscal administration of the activity. This included how activity was processed, recorded, and monitored. Applicable personnel were interviewed in order to gain a thorough understanding of the various processes. A sample of Metro fleet fuel activity was judgmentally selected for the audit period August 1, 2006 through September 30, 2006. Metro fuel activity was reviewed as follows.

Completeness. Reviews were performed of Fleet Management's reconciliations of the cumulative data on the fuel supplier system reports with the Metro fleet management and financial systems. This was a high-level review to verify that the total periodic fuel charges recorded on the supplier software agreed with the Metro systems.

Accuracy and Appropriateness. Reviews were performed of individual transactions recorded on the fuel supplier's system reports, along with postings to the Metro fleet management and financial systems. This provided assurance that individual transactions were accurately reported in the systems, as well as, support the cumulative data reported. Additionally, the review included the verification of drivers and vehicles involved in fuel transactions for appropriateness in accordance with policies and procedures.

Monitoring and Reconciliation. A review of monitoring practices associated with fuel activity was performed. This involved gaining an understanding of the Metro fleet management system and its various reporting capabilities, along with the use of exception reporting. Additionally, efforts were made to provide best practices for fleet services reporting and monitoring. This involved contacting organizations similar to Metro in order to gain an overview of their fleet management practices.

This information was reviewed to ensure that activity was processed accurately, timely and was complete. An assessment of the internal controls and procedures for the administration of fleet fuel activities was performed. The review did not include vehicles maintained by the Louisville Fire Department or fuel disbursed for small equipment at satellite sites managed by individual Metro departments (e.g., Zoo, Parks). The review would not reveal all weaknesses because it was based on selective review of data. The following issues were noted.

The Metro Fleet Services division is responsible for the administration of fuel activity for assigned vehicles. This includes the authorization to purchase fuel, reviewing fuel supplier activity reports, along with posting transactions on the Metro fleet management and financial systems. Business office staff supporting fleet services operations is responsible for administering payments to the fuel supplier. Ultimately, all fuel costs are charged to the user Metro departments.

Metro fleet fuel purchases are recorded on a computer system managed by the contract fuel supplier. The reports provide details for each transaction, such as the purchaser, vehicle receiving fuel, amount of fuel, cost of fuel, date and time of the transaction. Periodically, this information is interfaced with the Metro fleet management computer system and the cost is posted to the Metro financial system.

Observations

There were some issues noted with the administration of fleet fuel activity. As a result, the internal control structure is weakened and its effectiveness impaired. The observations are as follows:

- #1 Monitoring and Reconciliation
- #2 Policies and Procedures
- #3 Fleet Management Computer Systems
- #4 Operator and Vehicle Assignment

Details of these begin on the following page.

#1 - Monitoring and Reconciliation

There is not adequate reporting and monitoring of individual vehicle transactions, including fuel activity. Routine user reports are not available from Metro's fleet management system to provide adequate oversight of activity. Inadequate oversight could result in inappropriate activity being processed and inaccurate recording of transactions. As a result, the internal control structure is weakened and its effectiveness impaired. Issues include the following.

- Metro Fleet Services management is aware of reporting weakness associated with the administration of fleet activity. The current fleet management software appears to have extensive reporting capabilities and Metro department vehicle coordinators have access to on-line system information. However, there are no routine reports for departments to use for monitoring purposes (e.g., fuel usage, maintenance charges). Several factors contribute to this problem.
 - Fleet Services has not yet determined the most value-added system to provide the proper reporting of activity. Metro departments were contacted to provide input on the types of information that they would find most helpful, but responses were limited and Fleet Services did not perform additional follow-up. As part of this review, Internal Audit contacted not-for-profit entities with fleet operations similar to Louisville Metro in an attempt to obtain best practice information. Each entity that responded managed their fleets in different manners, but the fleet divisions were responsible for all aspects of monitoring and the user areas were not responsible for oversight.
 - Fleet Services receives limited technical support for the fleet management software. The Metro Department of Technology has limited involvement and Fleet Services staff and the system provider have prepared the reports currently used. It's not certain if there is a current contract with the system provider, therefore it's not known what level of support is potentially required as part of a maintenance agreement (e.g., development of reports).
- Complete monitoring of fuel charges is not performed. The contract with the fuel supplier provides for two methods of calculating fuel costs, the most beneficial of which is applied for each transaction. Sufficient information is not provided on the supplier's reports to adequately verify fuel charges (e.g., Oil Price Information Service (OPIS) price for cost-plus calculation, retail price as of the point of sale). Ultimately, this hinders the ability to ensure that payments to the fuel supplier comply with the contract.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ The desired structure for vehicle monitoring responsibilities should be determined. This is necessary in order to determine fleet system access rights and the appropriate distribution of reports. The Office of Internal Audit recommends that the monitoring system places the responsibility for oversight on the user departments. Ultimately, individual users should be accountable for their fuel system activity.
- ✓ An effective monitoring system should include the review of supporting documentation and its reconciliation to activity reports. This includes fuel

transactions, vehicle maintenance, operator authorization and vehicle assignment information.

- ✓ Metro Fleet Services should continue efforts to provide useful reporting tools for vehicle users. This might be accomplished through a workgroup of Metro department vehicle managers to determine the information needed. Consultation with other fleet management organizations should also be considered.
- ✓ A key element to a computer management system is the ability to produce reliable and accurate information. The information should facilitate the administration of the process to which it is intended. The system should also be able to generate reports that are easily attainable by its users. Some possible reports that could be prepared on a regular basis for Louisville Metro might include Vehicle Listings, Vehicle Assignments, Repair Order and Detail, Fleet Cost Distribution, Fuel Usage, Fuel Detail, and Scheduled Preventative Maintenance notification.
- ✓ Exception reports should be considered as Fleet Services establishes routine reports. This should include activity reporting such as excessive fuel purchases and unauthorized fuel types.
- ✓ Fleet Services should determine the appropriate source of technical support for the fleet management computer system in order to prepare the desired activity reports. This should include reviewing any software maintenance agreements and consulting with the Metro Department of Technology.
- ✓ Fleet Services staff should determine how to best oversee fuel purchases to ensure compliance with contract requirements. This could include inquiring as to whether OPIS average cost / retail charges at the time of the purchases could be included on the fuel supplier reports. Analytical reviews of fuel costs should also be performed to monitor charges for Louisville Metro's use.

Public Works and Assets Corrective Action Plan

Metro has requested comprehensive fuel reports from Fleetwave staff. Metro Fleet Service has recently hired a Fleet Systems Manager and will begin to monitor the reports for Fleet and Metro Departments to ensure accurate fuel reporting. In the interim, queries have been developed to reconcile transactions. Metro Departments have also had queries developed on their desktops to assist in fuel monitoring at the Department level. Fleet Services will continue to work with Metro Departments in fuel monitoring.

The current contract did not require contractor to provide OPIS prices. Current best practices are to compare fuel prices based on national and local pricing data.

In conjunction with the Metro Department of Information Technology, we are evaluating the Fleetwave system and alternatives. This evaluation is for all fleet operations, not just fuel activity.

#2 - Policies and Procedures

There is not a comprehensive manual that presents the duties that Fleet Services and business office staff use to manage fuel activity. A vehicle use and assignment policy exists for Metro vehicles and fleet staff had notes for some processes (fuel system interface, issuance of fuel card). However, there are not complete, documented guidelines for managing information. This includes information recorded on the fuel supplier's reports, interfacing fuel transactions with the Metro fleet management system, recording of information on the Metro financial system and processing periodic payments to the fuel supplier. The lack of documented procedures increases the risk of non-compliance with intended procedures and requirements. This can also lead to inconsistencies and inefficiencies with processing and monitoring of activity.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ A formal written internal policy and procedure manual should be developed. This manual should include sufficient detail for Fleet staff to administer job duties, copies of forms used, and the policies followed in the processing of activity. This internal policy and procedure manual should be distributed to all applicable personnel. In addition, training of key personnel will help ensure consistent adherence to the requirements. The internal policy and procedures should reflect the most current information and be updated periodically. This will help ensure adherence to applicable guidelines, along with promoting efficiency and effectiveness of program administration.
- ✓ Documented user manuals and training should be provided for fleet system users. This should provide instructions for routine reporting and the intended uses of the reports.

Public Works and Assets Corrective Action Plan

Metro Fleet staff will work with the Business office to develop a policy and procedure manual and distribute it to the appropriate personnel. Standard reports for fuel card, PIN issuance will also be developed. Current reports will be updated.

User manuals are available and have been distributed to user agencies. Each agency was provided the tools and training to access fuel data and review departmental fuel transactions.

#3 - Fleet Management Computer Systems

There was a problem noted regarding computer system access rights. Also, several cases were noted in which it appears the Metro fleet management system contained inaccurate information. As a result, the internal control structure is weakened and its effectiveness impaired. Issues include the following.

- Proper computer authorization is not maintained for the fleet fuel card system. The Fleet Supervisor shares the Fleet Manager's Username and Password to log into the system. This weakens accountability and does not provide an accurate record of who processes fuel card activations, changes, deletions, etc.
- There were some problems noted with the charges posted to the Metro financial system.
 - In two cases, the Metro fleet management system total fuel charges for the financial coding examined did not agree with the Metro financial system posting. This resulted in the financial system reflecting approximately \$1,100 more than the fleet system. The cause of the discrepancy could not be determined with certainty.
 - Fleet system vehicle charges for one department do not agree with the Metro financial system posting. While specific assignment / cost information for vehicles is captured on the fleet system for several divisions, it has been specially programmed to combine all charges into a single coding on the financial system interface. The user department had intentionally requested this treatment. This is not consistent with processing for other departments and does not allow the Metro financial system to record costs in the areas they are specifically expended.
- One case was noted in which multiple types of fuel were purchased for a single vehicle unit number fuel card. The Metro fleet system includes a designation for the authorized fuel type and transactions with other types should be flagged as an exception. The instance noted may indicate that this control is not functioning properly.
- In six of ten cases examined, the Metro fleet management system did not agree with the supplier fuel system. The Metro fleet system included federal tax and / or discounts amounts that should not be included for Metro fuel charges. Fleet Services staff was aware of the problem and were working to correct the errors.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ Security measures such as individual Usernames and Passwords for computer software access should be required. This will improve accountability for information recorded in the computer systems.
- ✓ An oversight system should be developed to verify that fleet management activity posts to the Metro financial system accurately. This includes fuel, maintenance and labor charges. Any discrepancies should be investigated.

- ✓ Fleet Services staff should evaluate any exceptions to information reported on the various systems and programming changes to the software. The existence of these circumstances should be documented. A review should be performed in the case of the department with vehicles being used in multiple divisions, but all activity being recorded to a single financial coding. A determination should be made as to whether this is the best manner to report activity. Metro Finance and the user department should be consulted.
- ✓ Fleet Services should determine the cause of inappropriate activity (e.g., taxes, discounts, unauthorized fuel types). Errors should be corrected and an assessment of the system controls should be performed to ensure they are operating as intended.

Public Works and Assets Corrective Action Plan

The computer access issues were immediately addressed and corrected.

The Fleet fuel card vendor has been notified and the cards issues have been addressed and corrected. Fuel type “lockouts” have been set and any unauthorized fuel types are rejected.

The vendor has been notified and in the process of correcting the charging issues. An update is expected soon to correct these issues.

An exception file is currently available on FleetWave. It rejects transactions that have incorrect unit numbers, incorrect mileage or excessive fuel amounts. These parameters are set in the vehicle information screen. Fleet is also working with the Fuel card vendor to address these issues.

#4 - Operator and Vehicle Assignment

Some problems were noted with the accuracy and completeness of operator assignment and vehicle authorization records. These types of weaknesses could result in inaccurate reporting of activity and unauthorized transactions. As a result, the internal control structure is weakened and its effectiveness impaired. Issues include the following.

- Records for authorized vehicles and fleet users are not maintained in a uniform manner.
 - The issuance of fuel cards is not recorded in a consistent manner. The Fleet Commercial Action Log used to document new fuel card orders is not always maintained and replacement fuel cards are not signed for upon release. The lack of a complete documented record weakens accountability for fuel cards issued.
 - Records for user personal identification numbers are not maintained in a particular order (e.g., alphabetical by user name, department name). This reduces the efficiency of the filing system and increases the risk files could not be retrieved if needed.
- For four of the ten fuel transactions examined, the employee was assigned to a different department than the vehicle. There was no documentation to explain these occurrences (e.g., temporary assignment of a vehicle from another department).
- Vehicle Assignment Forms for nine of the ten vehicles examined could not be located. Fleet Management staff explained that these vehicles were placed in service prior to October 2004 and that Vehicle Assignment Forms prior to that date could not be located in their files.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ A filing system should be formalized for necessary supporting documentation. Fleet Services staff should determine the format and types of records to be maintained. The Louisville Metro Archives division should be consulted regarding the retention requirements for fleet records. The internal policies and procedures manual should address how documents are managed. This will help ensure that documents can be located in an effective and efficient manner.
- ✓ As previously noted, an effective monitoring system is necessary in order to promote the accuracy and completeness of fleet activity. This would include the reconciliations of transaction records, along with oversight to ensure the appropriateness of activity. Oversight should also be provided for operator authorization and vehicle assignments.

Public Works and Assets Corrective Action Plan

Standard reporting and filing procedures will be addressed. Fleet Services will work with Metro Departments to ensure correct assignment of Metro vehicles. Any updates will be immediately addressed.

Appendix - Fiscal 2007 Budgeted Fuel Costs

The following chart presents the Metro fleet system user departments' percentage of the \$6.9 million budgeted fuel costs for fiscal year 2007.

