



MIAMIBEACH

BUDGET AND PERFORMANCE IMPROVEMENT
Internal Audit Division

INTERNAL AUDIT REPORT

TO: Jorge M. Gonzalez, City Manager
VIA: Kathie G. Brooks, Budget and Performance Improvement Director
FROM: James J. Sutter, Internal Auditor

DATE: November 19, 2009
AUDIT: Fuel Distribution
PERIOD: October 1, 2006, through March 31, 2009

INTRODUCTION

This report is the result of an audit performed on the City's fuel distribution activities, in accordance to our Audit Plan. The Fleet Management Division is responsible for all daily operations of fuel availability and distribution to City vehicles and locations, consumption activity processing, and reporting of all information associated with these processes.

Fuel distribution to City vehicles is primarily controlled through the RNI FuelOmat System (RNI), which keeps track of gasoline and diesel fuel dispensed at the Fleet Management pumps or by its tanker truck. Most City vehicles are equipped with a Vehicle Identification Unit (VIU) and a coil/ring installed around the fuel inlet. These two devices operate together and allow fuel to be dispensed from Fleet's pumps or from the tanker truck. A programmable fuel key is used as an alternative device for vehicles and equipment not equipped with a VIU and coil/ring, so they may be fueled at the Fleet's pumps or the tanker truck. There were 99 active fuel keys assigned at the time of our audit. Approximately every two weeks, the truck delivers fuel to several City locations, such as generators, storage tanks at golf courses, boats and other locations.

Other automated systems used by Fleet Management for its fuel availability and distribution operations are the FASTER system, for asset management, automotive parts, mechanic labor and fuel consumption tracking, and the Veeder-Root system, for measuring inventory levels of fuel in the underground tanks. RNI and the FASTER system are integrated through a computer interface that allows daily uploads of RNI records of fuel distributed from the Fleet pumps and tanker truck.

Most fueling of City vehicles takes place at the Fleet's pumps under the controls provided by the VIU and coil/ring device or the fuel key. For fuel dispensed using a fuel key, the amount is controlled by a quantity code that is programmed into the key. There are ten codes that restrict fueling amounts, from 10, 20, 30, up to 200 gallons, or unlimited fueling, for emergency fuel keys and special needs locations. However, fuel is also obtained for the City's fleet through the use of Chevron, Shell and VISA credit cards issued to City employees for special fueling needs. There are 21 Chevron and 3 Shell credit cards issued. Among the City vehicles that require purchasing fuel in this manner are the Fire Department and Fire Rescue trucks at the north end of the City, because of the distance from Fleet Management; Police Department motorcycles, because these require premium gasoline not available at Fleet's pumps; and off-road vehicles such as ATVs, because they need to be fueled at the closest and safest location. These credit card fuel purchases are reviewed monthly when the account statements are received at Fleet. The process involves tracing all the receipts provided by City personnel to the charges identified on the credit card statements. If a receipt is not provided for

a purchase listed on the statement, the charge is paid as part of the balance due without any additional follow up. Fleet indicated that in previous occasions, they have emphasized the importance of receiving all fuel purchases receipts. For record keeping and charge back purposes, these purchases are manually entered in the RNI or FASTER systems to be subsequently allocated to the respective departments.

All fuel purchases by Fleet Management for its underground tanks and tanker truck, as well as purchases through credit cards are charged to General Ledger account #510-1780-000351 (Engine Fuel & Lubricants). On a monthly basis Fleet Managements prepares all reports on fuel consumption by departments and charges back along with fleet depreciation, repairs and parts to their respective General Ledger expense accounts (Fleet Management-Internal Svc).

The City is allowed to request a reimbursement for state and federal excise taxes paid on purchases of diesel and unleaded fuels. State tax information is gathered by Fleet from RNI and FASTER records and forwarded to Finance on a monthly basis for completion of the Local Government User of Diesel Fuel Tax Return form to be submitted to the Florida Department of Revenue in Tallahassee for the tax refund.

The following represents total fuel cost for the audit period obtained from the Engine Fuel & Lubricants account. The amounts shown are net of lubrication expenses, which are also posted to this General Ledger account:

FY 2007	FY 2008	FY 2009 ⁽¹⁾	Grand Total
\$2,001,177	\$3,089,259	\$ 830,587	\$5,921,023

⁽¹⁾ Partial year expenditures (October 1, 2008 – March 31, 2009)

OVERALL OPINION

As a result of our testing during the audit we were able to determine that the Fleet Management Division maintains an adequate level of internal controls over fuel purchases and distribution activities for the City. Fuel costs are properly being charged back to the departments and tax reimbursement returns for city vehicle consumption are properly prepared and submitted timely to Florida's Department of Revenue. However, our testing also identified some deficiencies in reference to the following:

1. For the month of February 2009 that was tested, differences were found between the amount of unleaded fuel purchased for Fleet Management's underground tanks and inventory levels kept by the Veeder-Root system.
2. Incorrect fuel cost allocations and chargeback amounts for Police Department fuel purchases done with credit cards, since charge back amounts are based on the average price paid by Fleet Management on large fuel purchases in the month rather than credit card purchase cost.
3. Fuel purchases made by police officers using the City's Visa Purchasing card posted to an incorrect General Ledger account.
4. There are no written procedures describing Fleet Management processes for the City's fuel distribution operations.
5. The City is not requesting a tax reimbursement on fuel purchased at a Hess station for the Fire Department equipment located on the north end. Also, the City is exempt from payment of Federal Excise Tax, but it is being paid on these purchases.

Internal Audit Report
Fuel Distribution
November 19, 2009

6. Fuel purchases for Police and Fire Department vehicles are made with several credit cards, which in some cases do not provide required information for Fleet Management's records and reports, as well as not deducting tax exemptions allowed to the City.
7. Some credit card purchases made by police officers, described by a card or reference number identifying the officer, were not supported by receipts. Also, motormen purchased fuel in excess of their equipment's fueling capacity.
8. Recordkeeping of fuel keys issued is not maintained up to date.
9. File backups of RNI system records require more frequent transfers to the City's network for additional protection.

Additional details regarding the above mentioned and other areas in need of correction have been provided on the Findings, Recommendations, and Management Responses section of this report.

PURPOSE

The purpose of this audit is to determine whether the Fleet Management Division maintains adequate levels of internal controls for the purchase of gasoline and diesel fuel, storage of this inventory, and distribution to City vehicles and locations.

SCOPE

1. Review internal controls over fuel purchases for Fleet Management's underground tanks and tanker truck, and evaluate the process of vendor selection for cost considerations.
2. Determine adequacy of internal controls for fuel distribution at Fleet Management's pumps and tanker truck dispensing.
3. Review internal controls over credit card fuel purchases, including reconciliation of sales receipts to account statements. Ensure that amounts recorded on Fleet Management systems are being properly reconciled.
4. Determine that fuel distribution reports are completed monthly and fuel costs are being properly charged back to user departments.
5. Evaluate adequacy of controls over fuel dispensed at one of the golf course locations.
6. Verify if tax reimbursement returns for City vehicles' fuel consumption are prepared properly and submitted in a timely manner.

FINDINGS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

1. Finding – *Fuel Inventory Monitoring*
We reviewed fuel purchases for Fleet Management's underground tanks and reconciled these to inventory records from the Veeder-Root system. Fuel volume levels are maintained by this system for Fleet's two unleaded fuel tanks and two diesel fuel tanks. The system's monthly Inventory Report, set up to provide hourly fuel levels, and the Delivery Report, reflecting increases in fuel levels were used for this reconciliation of purchases and inventory records. For the month of February 2009 that was tested, differences were noted between the amount of unleaded fuel purchases from Petroleum Traders Corp. and the fuel volume increases recorded by the Veeder-Root system on its Delivery Report. These differences ranged from 247 gallons (3%) to 1,119 gallons (13%) on all six purchases for the unleaded underground tanks. Fleet Management was made aware of the discrepancies between the purchased fuel amounts and their inventory records, but was unable to provide an explanation, other than it

may be a meter calibration problem with the tanks. No significant difference was noted for the one diesel fuel purchase from B.V. Oil Company during the month.

Recommendation(s)

We recommend that differences be researched and that subsequent purchases also be included in this review to determine the cause of the discrepancies. Depending on the results, the Veeder Root system vendor should be contacted as soon as possible for any necessary repairs, to ensure inventory records properly reflect fuel volume levels. In addition, a monthly reconciliation of fuel purchases should be performed to ensure no discrepancies exist.

Management's Response

Fleet Management is in the process of reviewing the Veeder Root system's depth sensors and computer calibration. We will compare the actual stick reading with the Veeder Root system at the time of a delivery. We will also request the services of Veeder Root and Great Dane Petroleum Contractors to identify any variance issues.

2. Finding – Incorrect Fuel Cost Allocated for Credit Card Purchases

a) The cost of fuel entered on the RNI FuelOmat system (RNI) is determined by the average price paid by Fleet Management for large fuel purchases during the month, which is then automatically assigned to each fueling transaction on the system. When fuel purchased for Police Department motorcycles is added to RNI, this is the per gallon cost assigned, which is lower than the actual price paid at Chevron stations and posted to the Engine Fuel & Lubricants General Ledger account #510-1780-000351 where fuel purchase transactions are entered. However, the examples listed in the table below show that the cost/gallon being used results on the amount charged back to the department being less than the actual price paid to the vendor.

RNI Transaction		CHEVRON		RNI Record		Chargeback Difference
Date	Gallons	Payment	Cost/Gallon	Amount	Cost/Gallon	
07/07/08	187.11	\$ 811.79	\$ 4.34	\$ 682.95	\$ 3.65	\$ 128.84
07/20/08	201.57	\$ 871.69	\$ 4.32	\$ 735.73	\$ 3.65	\$ 135.96
02/26/09	277.00	\$ 621.53	\$ 2.24	\$ 484.75	\$ 1.75	\$ 136.78
04/16/09	283.43	\$ 633.27	\$ 2.23	\$ 543.77	\$ 1.95	\$ 89.50

b) Similar to the Chevron purchases, Shell credit card purchases entered on RNI for Police Department's ATVs and other vehicles, reflect a cost for the fuel purchased at Shell stations lower than the actual price paid for this fuel and posted to the General Ledger.

RNI Transaction		SHELL		RNI Record		Chargeback Difference
Date	Gallons	Payment	Cost/Gallon	Amount	Cost/Gallon	
07/11/08	98.08	\$ 440.38	\$ 4.49	\$ 357.99	\$ 3.65	\$ 82.39
02/26/09	46.58	\$ 107.43	\$ 2.31	\$ 81.52	\$ 1.75	\$ 25.91

Recommendation(s)

We recommend that to accurately charge back the cost of fuel purchased with credit cards at Chevron and Shell stations, the transactions be entered into the RNI system with actual credit card charges and number of gallons purchased, instead of using the average cost per gallon.

Management's Response

A new Location [06] in RNI Fuelomat system has been created named Manual Entry. All outboard fuel transaction will now be entered into this location with actual gallons and cost.

3. Finding –Fuel Purchases Incorrectly Classified.

During our review of fuel chargeback to department 1140 (Police-Crime Investigation) for February 2009, we noted 23 Visa Purchasing Card charges totaling \$756.49 made between 12/11/08 and 6/16/09. These purchases from two department officers were posted to General Ledger account #011-1140-000503 (Fleet Management-Internal Svc). This was brought to the attention of the Fleet Management's Administration, since this expense account is reserved for charge back purposes. They agreed that this account is not for direct purchases of fuel and also noted that both officers have an assigned fuel key. Although the \$756.49 was re-classed from this account to General Ledger account #011-1140-000351 (Engine Fuel & Lubricants), subsequent purchases (7) totaling \$233.20 remain in the first account.

Recommendation(s)

We recommend that remaining charges for \$233.20 be re-classed to the proper account.

Management's Response

This issue is between Finance and the Police Department. Fleet Management will run quarterly detail department *-*-000503 account report rather than the Monthly summary report to ensure no other departments have charged the Fleet Chargeback account.

4. Finding – Fuel Management Procedures

Fleet Management's established procedures for controlling and monitoring fuel distribution operations for City vehicles and locations were not made available for our review. During the planning phase of this audit we requested these procedures and were informed that they were being updated and would be provided as soon as completed.

The fuel purchasing, distribution, monitoring and reporting performed by Fleet Management is a very detailed and labor intensive process, primarily carried out by only one individual. Only some limited assistance is provided as backup for RNI system uploads to the FASTER system and to work with Veeder-Root inventory system reports. The lack of proper procedures to ensure the uninterrupted operation of the City's fuel distribution is a matter of concern, given the almost total dependence on one individual for the processes involved.

Recommendation(s)

Fleet Management Administration needs to prioritize the prompt completion of written procedures to facilitate the continuation of all processes in the fuel distribution to City vehicles and locations. Consideration should also be given to delegate some responsibilities to other Fleet Management personnel to reduce the dependency on the one individual that presently carries out this function.

Management's Response

Generating new and updating existing Fleet Management procedures has been an issue since Fleet began experiencing employee reductions within the department at the same time the Finance department transferred the Invoice Processing and the VISA process to the department without a buyoff from end user departments. This put an extra burden on the department without an additional employee. Fleet Management will make every attempt to create new and update existing procedures by the end of the year 2009.

5. Finding – Fuel Tax Reimbursement

On a monthly basis, the City requests a reimbursement from the State of Florida on taxes paid for purchases of diesel and unleaded fuel. However, fuel purchased at the Hess station on 71st Street with Visa cards for Fire trucks and Fire Rescue vehicles at the north end of the City is not being included on the monthly fuel tax return. The monthly account statement provided by SunTrust Visa does not include the number of gallons purchased, only the amount of the transaction, which for the audit period was calculated at \$78,654. This represents a significant amount of fuel consumption that is not being included for tax reimbursement purposes. Additionally, the City is not exempt of Federal Excise Tax payment when fuel is purchased with the Visa Purchasing Card, while it is exempted when purchases are made with a fuel card such as Chevron and Shell.

Recommendation(s)

We recommend that fuel purchases for the Fire Department equipment located at the north end be included in the monthly fuel tax return sent to the State. Additionally, the City should research whether it can receive reimbursement for the Federal Excise Tax paid on these and any other fuel purchases done with the Visa card.

Management's Response

Two (2) years ago Fleet Management requested a Hess Diesel Only Credit Card from the Finance Department, which provided a rebate program, but was rejected by the Finance department. Using the VISA card provided a rebate depending on how much the City spent the whole year. The VISA rebates are credited to the Cities General Fund rather than the Fleet Fuel Reimbursement account.

Fleet will request the Finance Department to research in obtaining a Hess Credit Card or Universal Fuel Credit Card, which is widely accepted and eliminate the need for multiple fuel cards currently being utilized. This will also provide the ability to identify the Federal Excise Tax on the Monthly Statements, which is provided by the Chevron and Shell Statements. Refer to Recommendation(s) and Management Response in item#6.

6. Finding – Fuel Purchases Require the Use of Several Credit Cards.

Fuel purchases are currently made with Chevron and Shell credit cards for Police Department vehicles, and the Visa Purchasing Card for purchases made by the Fire Department at a Hess station located on the north end, and for payment of fuel purchases at the Miami Beach Marina for Ocean Rescue boats. In the case of the Visa card, Fleet Management does not receive detail purchase information required for fuel consumption records and to request tax refunds. Additionally, purchases are not tax exempt when made with the Visa card.

Recommendation(s)

We recommend that the City give consideration to research the benefits of a "universal fuel card" that could be used for all purposes indicated above under a uniform fuel purchasing method for its fleet of vehicles. A universal fuel card would also facilitate the review and recording of purchases made, as well as deduct applicable tax exemptions resulting in a lower cost per gallon of fuel.

Management's Response

Fleet Management will request the Finance Department to review the feasibility to obtain a Universal Fuel Card per the recommendation of the Internal Audit Department. Should this process be implemented it would negate Management's Response in item# 5 Finding – Fuel Tax Reimbursement.

7. Finding – *Credit Card Purchases for Police Department Vehicles.*

We reviewed Shell and Chevron credit card purchases for July 2008 and February 2009. Account statements were reviewed for reasonableness of charges and to verify credit card receipts turned in by police officers. The following deficiencies were found:

- a) There were eight purchases totaling \$157 included on three Shell card statements with total purchases of \$1,183 not supported by a receipt identifying the vehicle and officer making the purchase. For July 2008 there were six charges for \$138 and for February 2009 there were two charges for \$19.
- b) Motormen purchase fuel with a Chevron card at various stations because motorcycles require premium grade gasoline that is not available at Fleet Management's pumps. There were several Chevron card purchases (7 to 15 gallons) of non-premium gasoline where the gallons purchased exceeded the motorcycles fueling capacity (6 gallons).

Recommendation(s)

For fuel purchases made by police officers that appear on the credit card statement, identified by a card or reference number, but are not supported by a purchase receipt, we recommend that Fleet Management identify these unsupported transactions on the statement and forward a copy to the Police Department ranking officer to ensure support documentation is provided or proper approval is given prior to making the payment. In addition, motormen should be reminded that credit card purchases are for the sole purpose of fueling their own equipment, thus ensuring proper accountability of fuel consumption by motorcycle.

Management's Response

Fleet will provide a Memo to the Police department to ensure all receipts are provided to Fleet Management relating to Credit Card charges.

8. Finding – *Fuel Key Issue Log*

We reviewed fueling activity by fuel key holders during February 2009 (5,820 gallons) and verified Key IDs recorded on the RNI system to those on the Fuel Key Issue Log as of 4/15/09. The results revealed that three Key IDs recorded on RNI (PHILLI, RICK and JONES) had fueling activity during the month but were not reflected on the Fuel Key Issue Log. Fleet Management indicated that all three fuel key holder had lost/misplaced their key, the original keys were deactivated and new keys re-assigned [We were informed that all three original keys were later found]. Three other fuel keys (0123, 0124, and 0125) listed under Marine Police Patrol had fueling activity totaling 438 gallons, but reflected being assigned to a retired employee [We were informed that keys were re-issued to someone else in Marine Patrol]. In all instances, Fleet Management indicated that the Log was not updated in a timely manner.

Recommendation(s)

We recommend that Fleet Management perform a monthly review of fuel keys to compare and reconcile the information on the Fuel Key Issue Log to other records such as those maintained in RNI and/or the issued keys forms.

Management's Response

Fleet will maintain the log on a daily transaction basis to ensure the Excel Log sheet will be in sync with the RNI Black list. The RNI upload to the computer will be completed when there is a low time of fuel being dispensed. When uploading the Black List no one can fuel at the pumps. 500+ records are being uploaded for the Black list.

9. Finding – Backups of Fuel Distribution Records.

File backups for RNI system records are done daily to an external hard drive; however, this device remains connected to the computer at all times. We were informed that a service representative for AHA Electronic & Fuel Systems periodically backs up system files to the City's network F: drive. This vendor is primarily used to purchase control devices necessary for the RNI system and provide technical support for this system. Although daily backups to the external hard drive is a sound practice, it could be jeopardized by the fact that both the computer and the hard drive are physically next to each, and if some catastrophe were to happen to this office location, all files would be lost. We were also informed that transferring the RNI system from an application installed on a Fleet Management computer to a City network application, to take advantage of network backups, is not a feasible alternative due to administrative rights requirements.

Recommendation(s)

In order to improve the adequacy of backup procedures for valuable fueling records, we recommend that backups to the City's network F: drive be done at least on a weekly basis.

Management's Response

Fleet will comply with the recommendations of the Internal Audit Department to backup the fueling records on to the Cities provided F: Drive

EXIT CONFERENCE

An exit meeting was held on August 17, 2009, to discuss the audit report and to solicit management responses noted above. Attendees were Andrew Terpak, George Fisher, James Sutter and Luis López. Management responses were received shortly thereafter. All were in agreement with the contents of this report.

JJS:LL:ll

Audit performed by Luis López, Internal Audit Contractor

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