

OFFICE OF THE CITY AUDITOR

PERFORMANCE AUDIT OF FUEL SERVICE CARDS



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Memorandum



CITY OF DALLAS

October 29, 2004

Honorable Mayor and Members of the City Council
City of Dallas

We have conducted a performance audit of the Fuel Service Cards administered by the Department of Equipment and Building Services (EBS).

As a result of our analysis and tests performed, we conclude that EBS has written "Fueling Instructions" for using fuel cards to obtain fuel at the City's service centers. However, EBS can significantly improve its internal controls and administrative oversight of fuel cards by developing City-wide policies and procedures and by periodically and consistently providing reports on fuel card activity to user departments. Additionally, user department procedures do not adequately monitor the issuing and usage of fuel cards to ensure that issued cards are needed and that obtained fuel is only used for City purposes.

These concerns are discussed in the Opportunities for Improvement section of this report.

We appreciate the cooperation of City staff during our examination.

Paul T. Garner

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c: Mary K. Suhm, Interim City Manager

PERFORMANCE AUDIT OF FUEL SERVICE CARDS

CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY	1
INTRODUCTION	2
Authorization	2
Scope and Methodology	2
Overall Conclusion	2
Background	3
OPPORTUNITIES FOR IMPROVEMENT	5

EXECUTIVE SUMMARY

We have conducted an audit of Fuel Service Cards administered by the Department of Equipment and Building Services (EBS). Our audit period was October 1, 2001 through May 31, 2004.

As a result of our inquiries, observations, examinations, and tests performed, we conclude that EBS has written "Fueling Instructions" for using fuel cards to obtain fuel at the City's service centers. However, EBS can significantly improve internal controls and its administrative oversight of fuel cards. Additionally, user departments do not adequately monitor issuances and usage of fuel cards. We have summarized our Opportunities for Improvement below:

- Fuel card procedures and activity reports are inadequate. EBS has written procedures for some activities, however, written procedures were not available for various activities, such as assigning fuel card numbers, physically accounting for fuel cards that are to be deactivated and/or destroyed, updating information in the system used to track fuel card activity. Other user departments' procedures and guidelines were not documented, implemented, and available for fuel cards. Furthermore, EBS does not provide user departments with detailed periodic information on fuel cards issued and used. As a result, there are operational inefficiencies and ineffectiveness.
- Some requesting and authorizing documents were not readily available and were missing appropriate authorization signatures. We judgmentally selected a sample of 39 fuel card request entries, and noted that nine fuel card request forms were not available for review and twenty employees did not sign the pick-up log. Thus, there is no assurance that cards issued are properly authorized and issued to the appropriate employee, and verification cannot be provided efficiently or timely.
- Compressed natural gas (CNG) cards are not adequately controlled. EBS personnel do not periodically compare and reconcile information on card request forms to information provided by the CNG third-party provider. We noted that some vehicles listed on EBS' fuel card usage reports were not listed on the third-party provided report, some cards shown as issued did not show the associated vehicle number, and many deactivated cards were included in lists provided by the third-party supplier. Also, temporary CNG cards are not properly safeguarded or adequately inventoried. As a result, CNG cards may be used by unauthorized individuals, and these unauthorized uses may not be readily detected, corrected, and prevented.

We commend the department for accepting our recommendations and taking steps to resolve these issues.

INTRODUCTION

Authorization

We have conducted a performance audit of the Fuel Service Cards administered by the Department of Equipment and Building Services (EBS). This audit was conducted under the authority of Chapter IX, Section 2 of the Dallas City Charter and in accordance with the Annual Audit Plan approved by the City Council.

Scope and Methodology

Our audit was conducted in accordance with generally accepted government auditing standards and included tests of the accounting records, inquiries, and other procedures that we considered necessary in the circumstances. Our audit was for the period October 1, 2001 through May 31, 2004, although we examined certain related procedures, events, and matters occurring before and after this period. We reviewed EBS oversight and administrative functions, as well as user department internal controls over fuel cards. This audit did not cover fuel operations.

The objectives of our audit were to determine whether:

- Fuel cards issued are needed and periodically accounted for.
- Internal controls are adequate to ensure that only authorized individuals use the fuel cards.
- Fuel cards are used to obtain fuel for City purposes only.

To achieve our audit objectives and to develop an understanding of relevant internal controls, we:

- Discussed and reviewed policies and procedures in EBS as well as user departments.
- Interviewed EBS management and staff and personnel in several other departments.
- Analyzed and reviewed various reports, transactions, and documents.

Overall Conclusion

As a result of our analysis and tests performed, we conclude that EBS has written "Fueling Instructions" for using fuel cards to obtain fuel at the City's service centers. However, EBS can significantly improve its administrative oversight of fuel cards by developing City-wide policies and procedures and by periodically and consistently providing reports on fuel card activity to user departments. Additionally, user department procedures do not adequately monitor the issuing and usage of fuel cards

INTRODUCTION

to ensure that issued cards are needed and that obtained fuel is only used for City purposes.

These issues are discussed in the Opportunities for Improvement section of this report.

Background

EBS administers the City of Dallas fuel management system, including maintaining and monitoring the purchase, transport, and inventory for approximately 6 million gallons of diesel, bio-diesel, and unleaded fuel and more than 500,000 gallons of compressed natural gas (CNG) fuel. Twenty-three user departments obtain fuel from EBS. Prior to October 2001, most City vehicles obtained fuel using fuel cards. Since October 2001, some City vehicles have been equipped with frequency fueling devices called Vehicle Data Modules (VDMs) that are radios attached to the vehicles. Currently, approximately 3,000 vehicles have VDMs. Fuel cards are primarily used to obtain fuel for vehicles and equipment that do not have working VDMs as well as vehicles which use CNG fuel. Each department is responsible for requesting fuel cards to be issued to eligible employees. EBS uses the General Equipment Management System (GEMS) to track fuel card activity. This system is used to activate and deactivate fuel cards, as well as track fuel obtained by each department through the VDMs and fuel cards.

VDMs and fuel cards can be activated to obtain five types of fuel at the City's service centers – mid grade, regular unleaded, bio-fuel (diesel), propane, and super unleaded. CNG vehicles are fueled using another type of fuel card issued by a private contractor, Transtar, and used at off-site CNG locations.

The Gas Card Group (GCG) within EBS processes requests for issuance, replacement, and deactivation of VDMs and all fuel cards. Fuel cards can only be used at the on-site service centers (SC) and may be issued as:

- A department account card (gray) assigned to a specific department.
- A user account card (maroon) issued to a specific employee. Each user account card is associated with a specific department. To obtain fuel, the department card *must* be used along *with* the user card (maroon).
- A vehicle/equipment card (gray) assigned to a specific vehicle. To obtain fuel, this card is used without the department account card.

Fuel activity reports generated by the GEMS system may be summarized at the department level, as well as detailed to reflect transactions based on org, employee, and fuel card numbers. Monthly CNG card activity (usage) is reported to GCG on a data file, which is downloaded into GEMS.

The table below summarizes fuel obtained using VDMs and fuel cards for FY 2001-2002, FY 2002-2003, and October 2003 through May 2004.

INTRODUCTION

Description	October 2003 - May 2004	FY 2002- 2003	FY 2001- 2002
Fuel Usage	(Gallons)	(Gallons)	(Gallons)
VDMs Usage	2,422,690	3,671,619	3,547,121
Employee Fuel Card Usage (on-site service centers)	352,699	518,455	508,650
Vehicle Fuel Card Usage (on-site service centers)	32,681	68,828	247,776
CNG Fuel Card Usage (off-site private locations)	417,531	638,843	554,678
Total Fuel Usage	3,225,601	4,897,745	4,858,225
Devices/Cards Used	(Number)	(Number)	(Number)
VDMs Used	2,758	2,952	2,934
Employee Fuel Cards Used	710	698	694
Vehicle Fuel Cards Used	148	228	640
CNG Fuel Card Used	872	876	813
Total number of devices/cards used	4,488	4,754	5,081
Devices/Cards Issued as of May 31, 2004			
VDMs			2,905
Employee Fuel Cards			1,277
Vehicle Fuel Cards			350
CNG Fuel Cards			929
Total number of devices/cards issued as of May 31, 2004			5,461

Normally, fuel cards function as designed, allowing employees to obtain fuel when needed, and the related information is appropriately captured in GEMS. Vehicles equipped with VDMs do not require fuel cards to obtain fuel, except when the VDMs malfunction. Employees, whose fuel cards become damaged/lost and/or whose VDMs malfunction, may require some assistance to obtain fuel at the City's SC. During these situations, the parts section at each SC allows the employee to obtain the needed fuel. Pertinent information regarding these assistances (such as employee name or number, vehicle number, department, gallons) is subsequently logged and manually input into GEMS.

OPPORTUNITIES FOR IMPROVEMENT

We identified certain policies, procedures, and practices that could be improved. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the opportunities for improvement presented in this report may not include all areas where improvement may be needed.

1. Fuel card procedures and activity reports are inadequate.

We noted that:

A. EBS does not have written and approved procedures for some fuel card activities. EBS has two groups that primarily handle the fuel operations: the GCG and the Billing Group. We interviewed EBS employees in these two groups and noted that EBS has written internal procedures and memos regarding:

- The department bulk fuel account card request form. This form is used to add, change, delete, and replace fuel cards. The requesting department is required to complete the departmental approval and signature blocks before EBS will process the request.
- Fuel card activation, replacement, deletion, deactivation and information on the fuel control system for downloading.
- The fuel card number log, which is in numerical sequence. When a new fuel card is requested and processed, the next available number is assigned to that fuel card.
- The fuel card replacement form that identifies to whom the request is to be sent, as well as the information that is required to be completed.
- The monthly billing process that details specific employee actions to be performed each month for handling adjustments and performing necessary research, including examples of monthly billing reports.

However, based on additional discussions with EBS employees, we determined that written and approved procedures were not available for the following:

- Assigning fuel card numbers. Once a fuel card number has been assigned, subsequent replacement cards (within the same department) will be reissued using the number initially assigned. A new card will be issued with a new number for transfers to other City departments.
- Updating employee information in GEMS (e.g., transfers to other departments or within a department, and terminations).

OPPORTUNITIES FOR IMPROVEMENT

- Physically accounting for fuel cards that are to be deactivated and/or destroyed.
- Requesting and authorizing fuel cards by EBS employees and the related process.
- Obtaining, documenting, reporting, and accounting for fuel obtained through the parts and service section at the SC. Fuel log sheets at the SC are not pre-numbered to verify and ensure that all logs used have been accounted for and the appropriate information is input into GEMS.

EBS personnel stated that personnel changes, including staff reductions, as well as multiple functions being performed by individual employees, did not allow EBS to develop uniform policies and procedures for user departments. Also, policies and procedures which have City-wide application and impact, such as an Administrative Directives (AD), were not developed for fuel cards.

B. Departmental procedures and guidelines were not documented, implemented, and available for fuel cards. We judgmentally selected and contacted six user departments and EBS to determine whether there were documented departmental procedures for handling fuel card activities:

- Code Compliance (CCS)
- Park & Recreation (PKR)
- Police (DPD)
- Public Works & Transportation (PWT)
- Street Services (SSD)
- Water Utilities (DWU)

Discussions were held primarily with the Fleet Coordinators for the selected departments. Based on discussions and review of documents, we noted that:

- Of the seven City departments contacted (including EBS), only some divisions within DWU provided us with copies of memos regarding fueling instructions and the replacement of fuel cards. A DWU employee discussed in detail the process for determining the need for fuel cards, monitoring usage, collecting cards no longer needed, and notifying EBS of cards destroyed. We requested documentation of these procedures, but it was not provided.

Individuals contacted in user departments were knowledgeable of their division and/or section process for

OPPORTUNITIES FOR IMPROVEMENT

requesting and replacing fuel cards. We requested documentation for the practices followed for the division/section contacted, or documented departmental guidelines for determining need, requesting, monitoring, sharing fuel cards, deactivating, and/or destroying fuel cards, but it was not provided.

- User department employees in CCS, DPD, and PWT are using fuel cards issued to former employees who have:
 - Retired;
 - Transferred to another department; or
 - Terminated from the City of Dallas.

These user department personnel stated that unused supervisor/employee fuel cards are rotated among employees who have a need for them.

CCS and EBS employees have collected/destroyed some employee cards, but have not notified EBS to terminate the card. As a result of our inquiries, PKR has since notified and returned unused fuel cards to EBS. However, several user department employees stated that they were unaware that notification must be given to EBS to deactivate unused fuel cards.

User departments were not aware they needed to establish and document procedures for issuing and monitoring employee fuel service cards. Also, personnel changes within user departments did not ensure continuity and consistency in implementing departmental procedures.

- C. Fuel card activity is not adequately communicated and monitored. User departments do not receive detailed periodic information on fuel cards issued and used. They also do not receive other relevant information to ensure that issued cards are needed and are used by authorized individuals.

Except for divisions within DWU and SSD, none of the other five departments (including EBS) requested or were periodically provided information to determine the number of currently issued and used fuel cards, or whether employees were shown in their appropriate department and org. There was no evidence that fuel card usage was monitored for the contacted departments. Except for the information captured in GEMS and the logs maintained at the SC, there is no other record of the fuel obtained using individual and/or vehicle fuel cards.

OPPORTUNITIES FOR IMPROVEMENT

Additionally, user department information provided by EBS may not be accurate and reliable. We tested 82 fuel cards that are listed on EBS reports as active for four user departments. The contacted user department personnel verified that 78 employees no longer used or had the fuel cards. The other four employees had been recently issued cards. Of these four, two had been reassigned to other departments. All 82 fuel cards are still listed as being active in GEMS. Prior to the audit, EBS had not received requests to deactivate these fuel cards.

The information summarized in the table below was provided by EBS and has not been audited.

Department	Number of Employee Fuel Cards		
	Issued as of May 2004	Used During	
		FY 2002-2003	FY 2001-2002
Attorney's Office	2		
Aviation	16	8	5
Controller's Office	1		
Code Compliance Services	31	11	12
Convention & Events Services	4	2	4
City Manager's Office	1		
Court & Detention Services	1		
Development Services	8	2	
Fire Department	29	15	14
Police Department (DPD)	484	339	307
Communication & Information Services	6	1	
Water Utilities	240	115	129
Equipment & Building Service	94	20	29
Environmental & Health Services	15	3	1
Housing	8		
Library	4	2	2
Mayor & City Council (MCC)	1	2**	2**
Public Works	37	15	16
Park & Recreation	78	13	20
Business Development & Procurement Svcs	1		
Sanitation Services	54	13	15
Street Services	162	137	138
Totals	1,277	698	694

** Usage by the two police officers assigned to the MCC is reported with MCC and not with DPD.

Several factors contributed to this concern:

- Reports on fuel card activity are generated based on EBS internal needs and are not distributed to the user departments on a periodic basis. Reports are created for and reviewed by the EBS supervisor.
- The periodic update of GEMS for employees who have been terminated is not consistently performed at pre-determined time intervals (monthly, quarterly).

OPPORTUNITIES FOR IMPROVEMENT

- Most user departments did not receive and/or request EBS to provide periodic detailed information on fuel card activity. User departments did not notify EBS to deactivate fuel cards for terminated or transferred employees. User departments do not monitor obtained or used fuel.

These conditions result in:

- Operational inefficiencies and ineffectiveness.
- Potential for fraud, waste, and abuse.
- Reliance on a few knowledgeable employees. There is no assurance that procedures and policies do not conflict.
- Information on user departments that is inaccurate and unreliable. Each employee card generates information on fuel obtained by the employee. However, without periodic reports and monitoring and review, there is no assurance that the appropriate department or org was correctly charged.
- Information is not readily available on obtained and used fuel.

Effective internal controls ensure operations are in accordance with management's goals and objectives. Internal controls primarily consist of accounting and administrative controls. Written policies and procedures are a component of administrative controls and are essential when managing a City-wide program. City policy, such as an AD, specifies management's objectives and requirements and is usually general in nature. It cannot address all the requirements and contingencies. Written procedures provide consistency and are integral to proper administration, especially in an environment with staff turnover due to personnel reductions and hiring freezes.

Management's philosophy and operating style provide clear signals to employees about the importance of controls. Written policies and procedures provide a measure of internal controls by (1) establishing a control environment; (2) implementing control activities; and (3) exchanging information and communication on a timely basis.

We recommend the Director of EBS:

- A. Develop written City-wide guidelines, such as an AD, for using fuel cards. These guidelines should address EBS and user department responsibilities, as well as operational guidelines.
- B. Ensure that user departments are provided copies of the City-wide guidelines and are requested to comply or develop internal procedures for fuel cards that will include periodic and frequent monitoring of obtained fuel.

OPPORTUNITIES FOR IMPROVEMENT

- C. Ensure that fuel activity reports (with information on issued cards, usage, and other relevant information) are generated and periodically (no less than quarterly) issued to user departments, and perform a cost-benefit analysis to limit individual cards within a department and to validate cards assigned to a department.

Management's Response:

- A. Standard Operating Procedures (SOP) "Fuel Card Procedures and Responsibilities" have been developed and distributed.
- B. Distribution of SOP's to customer departments included recommendations to develop internal procedures for fuel cards that are consistent with the procedures in the SOP.
- C. Fuel activity reports are being distributed on a monthly basis, along with the recommendation that customers perform a cost-benefit analysis to limit individual cards.

In addition, the validation of cards is addressed in the SOP on page 4, paragraph 6; which states "The Fuel Section will provide a monthly report to department coordinators of all cards currently assigned to their department. Upon review of this report the department coordinator must respond to the fuel inventory staff and indicate if all cards are legitimately assigned or if any need to be deactivated. If no response is received within 10 working days, the report will be sent to a department executive for response."

- 2. Some requesting and authorizing documents were not readily available and were missing appropriate authorization signatures.**

Disorganized files hinder verification of authorized and appropriate documentation. Prior to issuing a fuel card, each user department is required to complete authorization forms. User department personnel are also required to sign the pick-up log sheet for fuel cards that have been issued. We judgmentally selected 39 fuel card request entries in the log book. We then determined the availability of the request forms and reviewed each for appropriate authorization signatures. We also reviewed the pick-up log sheets to ensure that they were signed by authorized personnel. We noted that:

- Nine fuel card request forms were not available for review. Request forms are kept in a file folder until it is full. The folder is then tied and placed in a box. The box does not contain pertinent information identifying the month, date, or year of the documents stored. These requesting and authorizing documents were not filed in a logical order (such as by department or

OPPORTUNITIES FOR IMPROVEMENT

date) to allow easy access and retrieval of documents. EBS personnel stated that a system is being implemented to chronologically file and store documents in labeled boxes.

- Twenty employees did not sign the pick-up log. Documentation pertaining to picked-up cards was inconsistent. User department employees are required to complete pertinent information on the log sheet and sign the appropriate block when cards are picked up. However, some employees signed the request or replacement forms instead. GCG employees stated that this is not uncommon. Other GCG employees do not obtain proper signatures and are not knowledgeable of the accepted practices and procedures.

Documenting and implementing clear and systematic processes for filing and storing critical forms and records are necessary for an efficient and effective operation. These processes ensure that procedures are consistently applied.

Without such systems:

- There is no assurance that issued cards are properly authorized and issued to the appropriate employee.
- Verification cannot be provided efficiently or timely. Fuel service cards may be at risk of misuse by unauthorized employees.

We recommend the Director of EBS ensure that:

- A logical and systematic approach is documented and implemented for filing and storing fuel card request and replacement forms.
- GCG staff follow established procedures and ensure that user department personnel complete the pick-up log.

Management's Response:

- Such an approach has been implemented and is addressed in the SOP on page 4, paragraph 2; Page 6, paragraph 2; and page 8, paragraph 2, which states "The Fuel Section staff will file Fuel Card Pick-up Log sheets and Department Bulk Fuel Card Request Forms weekly. The files will be labeled indicating the month and year they were logged. The current and previous fiscal year files will be maintained on-site. Files beyond the previous fiscal year will be archived."

OPPORTUNITIES FOR IMPROVEMENT

- This is addressed in the SOP on page 4, paragraph 1 which states “Customers must complete the information and sign the “Fuel Card Pick-up Log” when cards are received from the Fuel Section.”

3. CNG fuel cards are not adequately controlled.

CNG fuel card activity is administered by Transtar, an outside vendor. Transtar issues the cards, captures and stores data regarding obtained fuel, and provides GCG a monthly data file, which is downloaded into GEMS for billing and reporting purposes. GCG personnel generate exception reports each month for card numbers without an assigned vehicle number. Information is obtained from the vendor, as well as from internal sources to resolve these exceptions. We noted that:

- A. GCG does not periodically compare and reconcile CNG information on card request forms to information provided by Transtar. Upon receipt of the card from Transtar, GCG personnel note the card number, the date, and other relevant information on the request. However, a log of these requests and subsequent action is not maintained. We compared the GEMS usage report for the period October 1, 2003 through May 31, 2004, along with listings of CNG cards prepared by Transtar (March 31, 2004 and June 17, 2004). Transtar lists showed more than 1,165 CNG cards, while a report generated by GEMS showed 929 cards. Differences result from:
- Some vehicles listed on the fuel usage report were not listed on Transtar reports. (We contacted Transtar regarding the exceptions. These exceptions were adequately resolved by Transtar.)
 - Some cards shown as issued on the Transtar list did not show the associated vehicle number. (We contacted Transtar regarding the exceptions. These exceptions were adequately resolved by Transtar.)
 - Transtar lists included many deactivated cards where vehicles had been sold or were waiting to be sold or salvaged. The list also showed more than one card assigned to the same vehicle. The list included the current card, as well as each replacement card associated with the listed vehicle.
- B. Temporary CNG cards are not properly safeguarded or adequately inventoried. Access to temporary CNG cards is not restricted, and periodic inventories are not adequate. Transtar provides 30 activated temporary cards. These cards are kept in a file folder in an unsecured desk, accessible to employees in the GCG. A log is

OPPORTUNITIES FOR IMPROVEMENT

not prepared when the cards are received. However, a log is maintained for the temporary cards issued.

Upon request, CNG fuel cards are initially issued by Transtar for CNG vehicles. The GCG, however, handles all replacement cards for Transtar. A spare card is issued after the employee, whose card is lost, stolen, or damaged, completes a fuel card replacement form. A spare card is used until a new card is issued by Transtar.

As a result of these conditions, CNG cards may be used by unauthorized individuals. Current procedures would not timely detect unauthorized use of these cards. Also, due to inefficiencies in administering the CNG fuel card operation, additional effort is required to resolve and manually enter monthly exceptions.

Management did not establish comprehensive procedures for all areas of operations. Current procedures for the issuance, replacement, and cancellation of CNG cards are not efficient to properly track CNG fuel card activities.

Proper internal controls require that:

- Assets used are periodically reconciled with authorizations and issuances.
- Resources received are recorded and periodically inventoried to ensure they are used as intended by management.
- Assets are safeguarded and restricted access is in accordance with management policy.

We recommend the Director of EBS:

A. Ensure that:

- Transtar is requested to update and provide periodic listings that reflect only currently authorized and activated cards.
- Periodic reconciliations of CNG cards used and CNG cards authorized, issued, and activated are performed at least on a quarterly basis.

B. Ensure that:

- Spare cards are kept in a more secured area and that access is restricted in accordance with procedures established by management.

OPPORTUNITIES FOR IMPROVEMENT

- The bg is revised to include blocks to record detailed information on spare cards received, including currently recorded information on issuances and other revisions deemed necessary.

Management's Response:

- A. Updates and reconciliation of CNG cards are addressed in the SOP on page 9, paragraph 1; which states "The fuel group will request a report once each quarter from Clean Energy to account for CNG cards that have been issued, should have been deactivated and were inactive within the previous quarter. Exceptions derived from the report will be identified and reconciled by appropriate action or deactivation by Clean Energy and the Fuel Section on a quarterly basis."
- B.
- This has been addressed in the SOP on page 4, paragraph 3; page 6, paragraph 3; and page 8, paragraph 3, which states "Cards that have been received by the Fuel Section (or Make Ready) but not yet distributed to customer departments are in a secured area".
 - The log has been revised to include more detailed information, and is addressed in the SOP on page 9, paragraph 2; which states "The fuel card group will maintain a log and spreadsheet of temporary cards issued and will note the date, equipment number, department (org) number and the name of the person the card was given to. When the card is returned to the fuel card group the date and name of the employee who returned it will be noted on the log and the spreadsheet."