Office of the City Auditor

Audit of Commercial Fuel Card Charges

Report Date: March 7, 2013
Date: March 7, 2013
To: James K. Spore, City Manager
Subject: Audit of Commercial Fuel Card Charges

I am pleased to present the report of our audit of Commercial Fuel Card Charges. Our audit focused on the City’s use of commercial fuel cards and associated transactions.

Overall, based on our audit, the processes and controls governing management and oversight of the City’s use of commercial fuel cards were adequate, but management can enhance these processes and improve efficiency by implementing our recommendations related to controlling and monitoring the City’s commercial fuel charges.

Findings considered to be of insignificant risk have been discussed with management. The results of this audit will be provided to City Council through the City’s Audit Committee.

The Office of the City Auditor reports to City Council through the City’s Audit Committee and is organizationally independent of all other City Departments. This report is intended solely for the information and use of the Audit Committee, City Council, City Manager, and appropriate management. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to thank the staff of Public Works/Fleet Management and the various City departments using commercial fuel cards for their courteous and prompt assistance during our audit.

If you have any questions about this report, or any audit-related issue, I can be reached at 385.5872 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias, CPA, CIA
City Auditor

c: City Council Members
Audit Committee Members
Dave Hansen, Deputy City Manager
Phil Davenport, Interim Director, Public Works

The Office of the City Auditor is an independent audit function reporting directly to the Virginia Beach City Council.
### Office of the City Auditor

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The Office of the City Auditor is an independent audit function reporting directly to the Virginia Beach City Council.
Objective

The objective of our audit was to determine whether the processes and controls governing management and oversight of the City’s use of commercial fuel cards were adequate to ensure effective control and monitoring of commercial fuel charges.

Scope

The audit covered commercial fuel transactions occurring during the 15-month period of July 1, 2011 through September 30, 2012.

Methodology

To accomplish our objectives, we performed the following procedures:

- Reviewed existing policies and procedures related to commercial fuel card operations and interviewed staff to gain an understanding of operations.
- Reviewed procedures for issuance, cancellation and safeguarding commercial fuel cards.
- Reviewed internal controls through inquiry and examination of documents and data.
- Obtained and reviewed billing files provided by commercial fuel vendors and an extract of fuel transactions from FleetFocus.
- Performed various analysis and tests necessary to determine data reliability, validity and completeness.
- Reconciled uploaded commercial fuel transactions in FleetFocus to vendor billings and InSITE payments.
- Performed analysis of commercial fuel transactions to identify transactions associated with noncompliance and/or identified high-risk areas.
- Notified departments of potential risk areas.
- Made recommendations as appropriate to improve processes and enhance internal controls.
Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained during this audit provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City’s Audit Committee, City Council, City Manager, and appropriate management within the City of Virginia Beach. This report will also be made available to the public.
Background

Fleet Management, a division of the Department of Public Works, is responsible for management of the City’s fleet assets and fuel resources. Fleet assets are comprised of licensed/unlicensed motor vehicles or equipment (on-road/off-road). Fleet Management provides full lifecycle services for the City’s fleet assets including acquisition, maintenance, repair, and disposal. A motor pool rental fleet is maintained for the temporary transportation needs of City departments.

The City’s fueling operations are the responsibility of Fleet Management. This responsibility includes ensuring adequate fuel resources are available for all City agencies providing services to citizens and visitors. There are 11 City-owned automated fueling facilities dispersed throughout the City.

The City provides access to both Exxon and participating Papco commercial fueling facilities via fuel cards. This program is intended to supplement, rather than supplant, the use of City-owned fueling facilities.

In September 2011, the City adopted *Administrative Directive 4.11, Fuel Resources* (AD 4.11) to ensure appropriate management and monitoring of fuel usage. In accordance with AD 4.11, Fleet Management is responsible for the oversight and management of the City’s fuel resources. Departments are responsible for monitoring and ensuring efficient use of City resources, including fuel. Departments are more suited to perform monitoring activities internally as they are familiar with their specific operational requirements and employee fueling patterns including work hours, vehicle mileage and use, and vehicle routes.

At the time of our audit, there were 155 active commercial fueling cards: 132 Papco cards and 23 Exxon cards. The majority of these cards are issued to address fueling needs of vehicles whose normal operations do not put them in close proximity to a City fueling site, primarily those in the Resort area.

<table>
<thead>
<tr>
<th>Department</th>
<th>Transactions</th>
<th>Gallons</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convention and Visitors Bureau</td>
<td>62</td>
<td>1,043.07</td>
<td>$3,262.14</td>
</tr>
<tr>
<td>Fire</td>
<td>716</td>
<td>16,956.09</td>
<td>$57,672.11</td>
</tr>
<tr>
<td>Human Services</td>
<td>20</td>
<td>203.10</td>
<td>$639.84</td>
</tr>
<tr>
<td>Museums</td>
<td>8</td>
<td>150.00</td>
<td>$476.11</td>
</tr>
<tr>
<td>Parks and Recreation</td>
<td>511</td>
<td>11,014.88</td>
<td>$35,139.98</td>
</tr>
<tr>
<td>Police</td>
<td>2,910</td>
<td>33,596.42</td>
<td>$104,922.68</td>
</tr>
<tr>
<td>Public Works</td>
<td>1,629</td>
<td>39,858.01</td>
<td>$132,961.48</td>
</tr>
<tr>
<td>Strategic Growth Area</td>
<td>122</td>
<td>2,304.96</td>
<td>$7,209.65</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>5,978</strong></td>
<td><strong>105,126.53</strong></td>
<td><strong>$342,283.99</strong></td>
</tr>
</tbody>
</table>

NOTE: Museums no longer use commercial fuel cards.
Our audit focused on the City’s use of commercial fuel cards and associated transactions. During the 15-month period under review, there were 5,978 commercial fuel transactions amounting to $342,284. This represents approximately 3.7% of the City’s total fuel purchases during the same period. Please see Table 1 on Page 3, for the distribution of commercial fuel card use by department.

Commercial Fueling Program—An Overview

Fleet Management is responsible for the oversight and management of the commercial fueling program which provides access to both Exxon and participating Papco commercial fueling facilities\(^1\) via fuel cards.

These responsibilities include:

- Authorizing a requesting fuel cards from the vendor.
- Distributing fuel cards to employees (issued to vehicle rather than individual).
- Reconciling fuel transactions via credit card to monthly statements received from the vendors.
- Correcting reconciliation errors.
- Preparation and processing of payment vouchers in InSITE.
- Billing departments for the commercial fuel charges.
- Providing departments with sufficient information to adequately monitor fuel usage.
- Canceling lost, stolen, terminated or retired cards with the vendor.
- Destroying terminated and/or retired cards.

Departments request commercial fuel cards by completing the Fuel Key/Credit Card Request form. The Fleet Management Administrator authorizes the request. Fuel cards are generally issued per vehicle and only on an as needed basis (i.e., undercover vehicles, motorcycles and Fire units). Fuel cards are also issued to vehicles whose normal operations do not put them in close proximity to a City fueling site (i.e., facilities in the Resort area).

Fuel cards do not restrict the type of fuel that can be purchased using the card (i.e., premium, plus, regular and diesel). Purchase agreements with the vendors restrict the use of the cards for purchases other than fuel. There are currently only two vehicle classes that require premium fuel.

\(^1\) Papco participates in the Voyager Fleet Network which provides fueling capabilities at more than 230,000 locations throughout the United States.
Each month, the vendors provide an electronic transaction file and a detailed statement. Fleet Management uploads the transaction file to FleetFocus; reviews and clears exceptions; and, processes the invoice for payment. The Fleet Management Operations Coordinator authorizes the payment to the vendor.

Fuel card purchases are included in the automated monthly billing process. Exxon charges are billed to departments using the average monthly costs for all fuel types. Papco charges are billed to departments using an average price per gallon by fuel type.

Departments are provided with a billing summary and information related to fuel usage by vehicle on a monthly basis.
Findings and Recommendations

Monitoring and Controlling Commercial Fueling Activity

At the time of our audit, there were 155 active commercial fueling cards: 132 Papco cards and 23 Exxon cards. The majority of these cards are issued to address fueling needs of vehicles whose normal operations do not put them in close proximity to a City fueling site, primarily facilities in the Resort area. Please see Table 2 below, for the distribution of commercial fuel cards by department.

Table 2. Distribution of Commercial Fuel Cards by Department

<table>
<thead>
<tr>
<th>Department</th>
<th>Exxon</th>
<th>Papco</th>
<th>Total</th>
<th>Inactive Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convention and Visitors Bureau</td>
<td>7</td>
<td>7</td>
<td>14</td>
<td>3</td>
</tr>
<tr>
<td>Fire</td>
<td>9</td>
<td>9</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Human Services</td>
<td>9</td>
<td>9</td>
<td>18</td>
<td>4</td>
</tr>
<tr>
<td>Parks and Recreation</td>
<td>14</td>
<td>14</td>
<td>28</td>
<td>3</td>
</tr>
<tr>
<td>Police</td>
<td>14</td>
<td>63</td>
<td>77</td>
<td>5</td>
</tr>
<tr>
<td>Public Works</td>
<td>34</td>
<td>34</td>
<td>68</td>
<td>9</td>
</tr>
<tr>
<td>Strategic Growth Area</td>
<td>5</td>
<td>5</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td>23</td>
<td>132</td>
<td>155</td>
<td>24</td>
</tr>
</tbody>
</table>

NOTE: For purposes of our audit, a card was considered inactive if there were no charges during our review period.

We reviewed and tested commercial fuel cards and transactions for compliance with established policies related to issuance, appropriate use, billing and cancellation. We reviewed and analyzed the commercial fuel transactions based on compliance and high-risk criteria identified in AD 4.11 Fuel Resources. The criteria are intended to identify transactions that may represent instances of noncompliance, misuse and/or opportunities for organizational savings.

The results of our analysis is provided below. We identified:

- Twenty-four (24) commercial fuel cards with little or no activity during our review period.
- Fifty (50) transactions involving the purchase of unauthorized fuel types (i.e., mid-grade or premium fuel).
- Fifty-nine (59) instances where commercial fuel was purchased within close proximity of a City-owned fueling facility.
- Forty-five (45) instances of multiple, same-day fueling.
- Seventeen (17) cards with purchases of multiple types of fuel.
- Six (6) transactions where the amount of fuel purchased exceeded tank capacity.


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2 For purposes of our audit, close proximity is defined as within a two-mile radius.
City employees, at all levels, are responsible for fueling their vehicles in accordance with City and departmental procedures and for compliance with related policies and procedures adopted by City leadership. This includes providing the information necessary to monitor fuel usage and efficiency (i.e., odometer readings). Our tests of data reliability and completeness revealed 817 commercial fueling transactions (13.7%) where odometer readings were not entered or erroneous/invalid data was supplied by the employee.

We also identified two credit adjustments had been uploaded as charges to FleetFocus. This resulted in erroneous overcharges to departments of $24.87.

If monthly fuel transactions are not properly reviewed and exceptions, such as those noted above, are not investigated this could result in the city paying for improper fuel transactions.

**Recommendation(s)**

We offer the following recommendations to enhance monitoring and control of commercial fuel card activity:

1.1 Consolidate the availability of commercial fuel cards under one vendor to improve operational efficiency and effectiveness.

1.2 Implement additional safeguards to ensure appropriate processes and barriers are in place to promote accountability and prevent theft and/or misuse of the City’s fuel resources through the use of technology and features available within FleetFocus and through the commercial vendors. Examples include:

   • Limiting purchasing capability by the type of fuel, tank capacity, and/or maximum number of daily transactions.
   • Requiring the use of unique personal identification numbers (PINs).
   • Requiring the input of odometer/meter readings.

1.3 Ensure all available commercial fueling transaction data (i.e., transaction time and fueling site) is uploaded in FleetFocus to enhance monitoring and reporting capabilities.

1.4 Develop exception-based reports for management to monitor areas of noncompliance and identified high risk criteria.

1.5 Review and assess the need for commercial fuel cards with little or no activity at least annually.
**Conclusion**

Overall, based on the results of our audit, the processes and controls governing management and oversight of the City’s use of commercial fuel cards were adequate, but management can enhance these processes and improve efficiency by implementing our recommendations related to monitoring the City’s commercial fuel charges.

**Acknowledgements**

We would like to thank the staff of Public Works/Fleet Management and the various City departments using commercial fuel cards for their courteous and prompt assistance during our review.
INTER-OFFICE MEMORANDUM

DATE: March 15, 2013

TO: Lyndon Remias, City Auditor
   Gretchen Hudome, Deputy City Auditor

FROM: Reginald J. Padgett, Fleet Management Administrator

SUBJECT: Fleet Management Response to the Fleet Management Fuel Credit Card Charges Audit

This is in response to your Audit of Commercial Fuel Card Charges draft report dated March 7, 2013. I would like to commend you, Lyndon & Gretchen, for your professional handling of this review process. Furthermore, thank you for your completion of this review & draft submission in a timely manner.

Shown below are our responses to the recommendations, as follows:

1.1 Consolidate the availability of commercial fuel cards under one vendor to improve operational efficiency and effectiveness.

Response: Public Works concurs with this audit finding. (Fleet Management is considering the use of the State fuel contract. Fleet Management has already informed the City EXXON fuel card users that Fleet Management is working towards having one fuel card vendor. As of 3/15/2013, only budget unit # 09028 has not been informed because of the change in the fuel card person in charge in that budget unit. After the EXXON fuel cards are cancelled, we plan to eliminate the PAPCO cards and replace it with the State fuel card. Fleet Management has started talking with the State Fuel Program Business Development Coordinator.)
Projected time to implement: One month from signing the State Fuel Card Enrollment Form

1.2 Implement additional safeguards to ensure appropriate processes and barriers are in place to promote accountability and to prevent theft and/or misuse of the City's fuel resources through the use of technology and features available within FleetFocus and through the commercial vendors. Examples include:
   - Limiting purchasing capability by the type of fuel, tank capacity, and/or maximum number of daily transactions.
   - Requiring the use of unique personal identification numbers (PINs).
   - Requiring the input of odometer/meter readings

Response: Public Works concurs with this audit finding. (We have started contacting the State fuel card program administrator. Among other things, we asked them of the safeguards that they have in place to prevent theft and or misuse of the City’s fuel resources. If the safeguards are not available upon the point of purchase, we are asking them to provide us an exception report, after the fact. This exception report can be sent to us daily. The State fuel card administrator has already sent us a list of the transaction details (Example: Agency name, date, time, Card #, Vehicle ID, Vehicle description, odometer reading, driver name/number, location, merchant name, product, etc.) we need. The full list is available, if needed. Projected time to be operational: One month from signing the State Fuel Card Enrollment Form)

1.3 Ensure all available commercial fueling transaction data (i.e., transaction time and fueling site) is uploaded in FleetFocus to enhance monitoring and reporting capabilities.

Response: Public Works concurs with this audit finding. (Fleet Management will definitely need assistance from ComIT to add the transaction data into the Transporter. Projected time to be operational: One month from signing the State Fuel Card Enrollment Form)

1.4 Develop exception-based reports for management to monitor areas of non-compliance and identified high risk criteria.

Response: Public Works concurs with this audit finding. (We will work with Gretchen Hudome based on the information and data that she has on the matter. Please see response to item # 1.2 that includes the matter of exception report. Projected time to be operational: One month from signing the State Fuel Card Enrollment Form)

1.5 Review and assess the need for commercial fuel cards with little or no activity at least annually.

Response: Public Works concurs with this audit finding. (Inactive cards and cards requested by other operating budget units but not picked up should be
cancelled. We have already implemented this process. Projected time to be operational: Implemented as of March 13, 2013)

The Fleet Management Division of the Department of Public Works appreciates your looking into our commercial fuel card charges, the review thereof, and the recommendations that you have made.

Please advise me if you have questions regarding our response.

RJP/amt

c: Dave Hansen, Deputy City Manager
   James W. Yost, Operations Coordinator
   Jennifer Bagwell, Acting Service Office Supervisor
   Astrophel M. Tejada, Accountant III