



PAT FRANK
Clerk of the Circuit Court
13th Judicial Circuit

COUNTY AUDIT

HILLSBOROUGH COUNTY, FLORIDA

FUEL PROCUREMENT AND INVENTORY PROCESS

REPORT # 259

APRIL 23, 2014



April 23, 2014

The Honorable Mark Sharpe, Chairman
The Honorable Kevin Beckner
The Honorable Victor D. Crist
The Honorable Ken Hagan
The Honorable Al Higginbotham
The Honorable Lesley "Les" Miller
The Honorable Sandra L. Murman

Dear Chairman Sharpe and Commissioners:

The Audit Team performed an audit of the County's Fuel Procurement and Inventory Process (Audit Report # 259, dated April 23, 2014). Responses to the Audit Team's recommendations were received from the Director of Fleet Management and have been included in the report after each audit comment and recommendation.

The Audit Team appreciates the cooperation and professional courtesies extended to the auditors by the Director and personnel of Fleet Management during this audit.

Sincerely,

Peggy Caskey, CIA, CISA, CFE
Director of County Audit

CC: Mike Merrill, County Administrator
Tom Fass, Assistant County Administrator for Fleet Management
Sharon Subadan, Assistant County Administrator
Bonnie Wise, Chief Financial Administrator
Koni Cassini, Director of Fiscal Services
Bob Stine, Director of Fleet Management
Bruce Dangremond, Manager, Performance Mgmt, Business and Support Services

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EXECUTIVE SUMMARY

BACKGROUND INFORMATION

The Fleet Management Department (Fleet) is responsible for ordering, delivering and billing for the fuel used by select departments and agencies supported under the County Administrator. Fleet's duties also include granting access to authorized users, vehicles, and equipment, maintaining an adequate fuel supply, ensuring that each fuel site remains operational, and ensuring compliance with various environmental regulations.

On October 1, 2013, during the course of the Fuel Procurement and Inventory Process audit, Fleet moved under the direction of Bonnie Wise, Chief Financial Administrator. Fleet is still supported by Fiscal & Support Services Public Safety and Community Services (FSS-PSCS) under Sharon Subadan, Deputy County Administrator for contract management and invoice processing.

OBJECTIVE

The objectives of this audit were:

1. To determine whether or not the County has adequate controls over inventory of gasoline and diesel fuels and the distribution of the fuel to County departments; the County has procedures in place to ensure:
 - o The County receives the amount of fuel ordered.
 - o The County reconciles the amount of fuel distributed by Fleet to the amount of fuel delivered to County departments.
2. To determine whether or not the County has adequate controls over the payment of gasoline and diesel fuel purchases; the County has procedures in place to ensure:
 - o The vendor invoices the County the correct contract rate for the fuel delivered.
 - o The vendor invoices the County for the correct quantity of fuel delivered.
 - o The vendor invoices the County for the correct grade of fuel delivered.

SCOPE

The audit was conducted based on the *International Standards for Professional Practice of Internal Auditing* issued by The Institute of Internal Auditors. The timeframe covered by this audit was January 1, 2013, through July 31, 2013.

Scope limitations:

- Only Fleet's controls over fuel procurement and monitoring of its inventory were reviewed.
- Public Utilities purchases fuel for its own use. Its process was not reviewed.

OVERALL EVALUATION

Fleet and FSS-PSCS's personnel were responsive to the Audit Team's inquiries and provided data and other information in a prompt and courteous manner. The Audit Team found knowledgeable and dedicated employees who were receptive to the Audit Team's suggestions for improvement.

The audit results indicate that Fleet and FSS-PSCS have adequate internal controls in place to reasonably ensure that the vendor invoices the County the correct contract rate for the fuel delivered.

The following table summarizes the audit comments contained within this report. For each audit comment, there is a cross reference to the page number where the details of the audit comment can be found.

AUDIT COMMENT	CONCLUSION OF OBJECTIVE	PAGE REFERENCE
1	Opportunities exist to strengthen supporting documentation controls.	page 4
2	Opportunities exist to strengthen inventory tracking information.	page 7
3	Opportunities exist to strengthen fuel truck inventory tracking records.	page 10
4	An opportunity exists to improve segregation of duties.	page 13

OPINION

Based on the audit test results, except as noted in the audit comments, Fleet and FSS-PSCS appear to have an adequate internal control process to manage the fuel procurement and inventory for Hillsborough County.

The recommendations made in this report represent opportunities to enhance these controls through the use of additional monitoring of the fuel procurement activities.

The exit conference was held on March 18, 2014.

AUDITED BY

Peggy Caskey, Director of County Audit
Mark Kolman, Manager
Brenda Tyler, Internal Auditor II

AUDIT COMMENTS & RECOMMENDATIONS

AUDIT COMMENT 1

Opportunities exist to strengthen supporting documentation controls.

The Audit Team judgmentally selected a 14% sample of 30 invoices from a population of 209 invoices for the scope period January 1, 2013, through June 30, 2013. The Audit Team tested these sampled invoices to determine whether or not they were properly supported, calculated, approved, and billed in accordance with the contract rates.

- Seven (23%) of the 30 invoices tested included the proper bill of lading for support documentation. At the Audit Team's request, FSS-PSCS was able to obtain copies of the 23 missing bills of lading from the vendors. For one of the 30 invoices sampled, the bill of lading was illegible, and the Audit Team could not verify the number of gallons delivered.
- Twenty-nine (97%) of the 30 invoices had proper approval prior to the invoice being submitted for payment.

Per Fleet, the bill of lading is the document used to verify that the number of gallons of fuel delivered agrees to the number of gallons billed on the invoice.

Florida Statutes 206.12 states that, "Each person shall maintain and keep such record of motor fuel received, used, transferred, sold, and delivered within this state by such person, together with invoices, bills of lading, and other pertinent records and papers, as may be required by the department for the reasonable administration of the motor fuel tax laws of this state."

FSS-PSCS received the bills of lading and did not upload the documents into the County's document imaging and workflow software (OnBase). The bills of lading were discarded by FSS-PSCS. Per FSS-PSCS, during the course of the audit, FSS-PSCS started uploading the bills of lading into OnBase. In February 2014, Fleet took over the responsibility of maintaining this supporting documentation.

RECOMMENDATION:

Consideration should be given to:

- a. ensuring that all invoices are properly approved for payment;
- b. providing training to Fleet's staff to ensure that proper supporting documentation is maintained on file (including bills of lading);
- c. ensuring supporting documentation is legible and capable of substantiating the provided information on the vendor's invoice; and
- d. maintaining supporting documentation in compliance with F.S. 206.12.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

- a. Fleet Management has established an internal Fleet Invoice Processing Memorandum, dated February 27th, 2014, which highlight's step by step procedures for ensuring invoices are properly processed and approved for payment. This process will continue to be monitored for accuracy and improvement.
- b. All personnel involved in the processing of invoices have been instructed on the importance of maintaining invoices and bills of lading for increased accountability. Furthermore, Fleet Management has now assumed full responsibility for the processing and control of invoices and all supporting documentation. This process is designed to ensure Fleet Management retains sole responsibility throughout the invoice processing lifecycle for improved accountability.
- c. Fleet Management will continue to work with vendors to ensure support documentation is legible. Additionally, Fleet Management will ensure all copies uploaded are legible and support the associated invoices.

- d. Fleet Management will continue adherence with F.S. 206.12 that states, "Each person shall maintain and keep such record of motor fuel received, used, transferred, sold, and delivered within this state by such person, together with invoices, bills of lading, and other pertinent records and papers, as may be required by the department for the reasonable administration of the motor fuel tax laws of this state" and has refocused its efforts to ensure all personnel involved in maintaining support documents are familiar with F.S. 206.12 requirements.

TARGET COMPLETION DATE:

- a. 03/28/2014
- b. 03/28/2014
- c. 03/28/2014
- d. 03/28/2014

AUDIT COMMENT 2**Opportunities exist to strengthen inventory tracking information records.**

1. Fleet uses a Florida Department of Environmental Protection approved formula to calculate the acceptable tolerance level for fuel expansion (gain) and shrinkage (loss). Each month, Fleet creates spreadsheets (with a worksheet for diesel and a worksheet for unleaded) at each location.

To determine whether or not the gains or losses of fuel were within the acceptable tolerance level, the Audit Team obtained the full population of six (6) Fleet Central and six (6) Fleet Unit III automated sites' inventory spreadsheets for the scope period of January through June 2013.

The Audit Team's testing identified that gain amounts for six (24%) of the 24 instances were outside their acceptable tolerance level. Two of these exceptions were due to a spreadsheet formula error. Once the formula error was corrected, both gains fell within the acceptable tolerance level. The remaining four exceptions are listed in the table below.

Exception	Gain	Acceptable Tolerance Level	Over The Acceptable Tolerance Level	Cause
1	367	266.81	100.19	Undeterminable
2	805	247.48	557.71	Undeterminable
3	296	242.43	53.57	Undeterminable
4	561	271.85	289.15	Undeterminable

2. The Audit Team judgmentally selected a 14% sample of the 30 highest dollar value bills of lading from a population of 209 invoices for the scope period January through June 2013. The Audit Team reviewed this sample of bills of lading (with corresponding invoices and tracking spreadsheets) to ensure the fuel site supervisor received the fuel into inventory and the amount of gallons received was correctly entered into the fuel inventory spreadsheet. Test results indicate that:

- a. Seven (23%) bills of lading were missing the site supervisor's signature on the receipt for the delivery of fuel.
- b. The Audit Team was not able to verify the amount of gallons on one bill of lading because the document was illegible. (Noted in Audit Comment 1.)

- c. One invoice (3%) did not show both the amount of fuel delivered and the amount of fuel transferred. Instead, the net amount of fuel increase was recorded in the delivery column. The amount of fuel delivered was 7,500 gallons and 3,000 of those gallons were transferred to another automated site the same day. The transaction was recorded as a net 4,500 gallons delivered. Fleet management cited that these inaccuracies were the result of data entry errors.
- d. Six (20%) of the bills of lading's fuel amount was either overstated or understated on the fuel inventory sheet. Fleet management cited that these inaccuracies were the result of data entry errors.

Perpetual inventory controls should provide for consistent, accurate and timely information pertaining to current fuel inventory levels, deliveries, and sales. The inventory numbers should be recorded accurately to ensure management is aware of any gains or losses of fuel. Any gains or losses outside the calculated acceptable tolerance level should be investigated by Fleet.

RECOMMENDATION:

Consideration should be given to ensuring the fuel inventory information is recorded correctly on the fuel inventory spreadsheets and bills of lading are signed by the site supervisor for receipting the delivery of fuel.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

Fleet Management has a requirement in its Fuel Duties Procedure to monitor all fuel inventory spreadsheets, the Fleet Fuel Manager will increase the review frequency of supporting documentation and inventory spreadsheet reviews, to ensure omissions and/or mistakes do not occur. Additionally, the Driver was briefed on the importance of properly documenting inventory spreadsheet and bill of lading documentation.

TARGET COMPLETION DATE:

03/28/2014

AUDIT COMMENT 3**Opportunities exist to strengthen fuel truck inventory tracking records.**

Fleet's perpetual fuel truck inventory is maintained by the fuel truck driver. At the end of each business day, the driver records fuel truck inventory transactions on an Inventory spreadsheet: sales (inventory outputs to internal customers), deliveries (inventory inputs from fuel vendor), and transfers (inventory moved from one location to another). The fuel truck driver maintains one spreadsheet per month tracking both diesel and unleaded fuels. The Audit Team performed three tests on the strength of the fuel truck inventory tracking spreadsheet records.

1. The Audit Team tested the accuracy of the July fuel inventory spreadsheet used by Fleet to track the fuel truck's inventory (sales, deliveries, and transfers). Test results identified the following concerns:
 - a. For two (25%) of the eight diesel delivery line items recorded on the spreadsheet, Fleet did not maintain the bill of lading (and legible copies were not available from the vendor). For these two deliveries, the Audit Team could not confirm whether or not the gallons received were correctly recorded on the spreadsheets.
 - b. For five (62%) of the eight diesel delivery line items recorded on the spreadsheet, the number of gallons on the bill of lading did not reconcile to the amount of gallons on the fuel inventory spreadsheet.
 - c. For two (9%) of the 22 diesel sales line items recorded on the spreadsheet, the total sales did not reconcile to the delivery tickets.
2. For the months of January to July 2013, the Audit Team tested whether or not the fuel truck's seven inventory spreadsheets' prior month ending balance was properly recorded as the next month's beginning balance.
 - a. Three (43%) of the seven spreadsheets did not have the correct beginning balance.
 - b. Of the seven spreadsheets tested, the fuel truck driver did not complete the last three days' inventory activity on four (57%) of those spreadsheets. As a result, the reported gains and losses were incorrectly stated on those spreadsheets.

3. On October 31, 2013, the Audit Team observed the fuel truck driver perform the physical end of month inventory reading. Per Fleet management, the physical inventory reading has some degree of inaccuracy due to the physical limitations of taking a manual measurement. A second physical read may be taken if the month's reported gain/loss amount is outside the acceptable tolerance level.

The Audit Team's test results indentified that although the fuel truck driver correctly recorded the physical inventory measurement for the ending balance in October, he did not correctly transfer that amount as the beginning balance in November.

For the instances noted above, the driver recorded the incorrect information on the spreadsheets. The information entered on the spreadsheets was not monitored by management to determine whether or not it was correctly entered.

Perpetual inventory controls should provide for consistent, accurate and timely information pertaining to current fuel inventory levels, deliveries, and sales. The inventory number should be recorded accurately to ensure management is aware of any gains or losses of fuel.

RECOMMENDATION:

Consideration should be given to ensuring that the fuel inventory information is recorded correctly on the fuel inventory spreadsheets so that fuel inventory is accurately accounted for.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

Fleet Management has a requirement in its Fuel Duties Procedure to monitor all fuel inventory spreadsheets, The Fleet Fuel Manager will increase the frequency of inventory spreadsheet reviews, to ensure omissions and errors are corrected. Additionally, the driver responsible for recording information correctly on the fuel

inventory spreadsheets entering the information was provided additional training.

TARGET COMPLETION DATE

03/28/2014

AUDIT COMMENT 4**An opportunity exists to improve segregation of duties.**

Fleet's fuel truck driver receives the fuel, delivers the fuel to internal customers, tracks the fuel truck's perpetual and physical inventory, and records the information on the inventory tracking spreadsheet. The driver records, on the fuel tracking spreadsheet, the number of gallons received into the truck's inventory and the number of gallons dispensed from the truck's fuel inventory.

The following control concerns were identified:

1. Fleet's procedures do not require a review of the driver's data entries to ensure the information is accurately recorded (sales, deliveries, physical inventory measurements, and month end/beginning fuel inventory levels).
2. Fleet's procedures do not require an observation of the driver's physical inventory measurement.

Segregation of duties is critical to effective internal control. It reduces the risk of mistakes and inappropriate actions. When duties cannot be separated, a review of related activities is needed as a compensating monitoring control activity.

RECOMMENDATION:

Consideration should be given to monitoring the driver's spreadsheet data entries and observing the driver's physical inventory measurements to ensure they are properly recorded and measured.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

Fleet Management has a requirement in its Fuel Duties Procedure to monitor all fuel inventory spreadsheets, the Fleet Fuel Manager will increase reviews of the inventory spreadsheets to help ensure omissions and errors are corrected.

Additionally, Fleet Management is in the process of procuring a new truck, which will be equipped with an automatic tank gauge for improved accuracy and safety.

TARGET COMPLETION DATE:

10/31/2014