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Fuel Card Management

For Audit & Risk

March 2017

1. Executive Summary

1.1 Overall Findings and Conclusions

The objective in the Terms of Reference was met and sufficient reliable evidence was gathered to conclude on the objective: were Council Policies and Procedures followed? (Refer Detailed Findings and Recommendations, page 7 below).

Conclusions and future actions

Senior management expected that there would be an effective fuel card monitoring procedure with associated internal controls to facilitate compliance. In our opinion, the system as evidenced was not adequately designed to achieve its purposes and some controls were not effective. Although some progress and improvement had been made recently, there were no clear business purposes or functionality for fuel card monitoring formally defined, other than fraud detection and prevention. Applying ad hoc fixes was not ideal. We are recommending that the next step should be to complete a business requirements analysis. This will ensure that any investment in monitoring is of value to the organisation and addresses the needs and required functionality of all the stakeholders to the system.

The action, to complete a business requirements analysis, we recommended and management have agreed to implement should address the gaps.

1.2 Background

This review of Fuel Card Management was scheduled in the approved Audit and Risk Committee Internal Audit Plan for 2016/17.

There were 183 fuel cards used to fuel Palmerston North City Council (PNCC) vehicles with a Warrant of Fitness or Certificate of Fitness (Trucks). The purpose of fuel card monitoring includes:

- card set up
- card replacement
- cost control
- error correction
- purchasing or replacing vehicles
- vehicle maintenance
- better address sustainability issues
- detect and deter the abuse of cards by staff, by third parties or by suppliers
- lease or contract management.

Fuel cards were all set up and recorded on the BP Fuel cards system. Individual cards were customisable e.g. by setting fuel type to prevent engine damage from incorrect fuelling; and to prevent purchases other than fuel. Management were proactive in providing a staff Fraud Hot Line and in conducting fraud self- assessment workshops lead by the Senior Internal Auditor and Chief Financial Officer. The manager group also attended a compulsory Fraud and Corruption Awareness course run by Deloitte NZ in February 2016 and repeated for new managers and others in February 2017.

1.3 Objective and Scope

The objective of this review was to: Review Council's fuel card management and its compliance with Council Policies and Procedures. This included sample review of fuel usage of selected vehicles and plant.

Three management policies were of particular relevance to this review:

– Purchasing Policy, Management Team Policy (MT 70)
– Fraud Policy (MT75)
– Vehicles Policy (MT54)
– Risk Management Policy (MT76).

Applicable Procedures encompassed the processes for monitoring fuel use and for optimising fleet management.

Out of scope

These matters were outside scope:

× Fuel use other than by fuel cards. (Most mobile plant has an individual fuel card, but small plant is often fuelled using the 3 fuel tanks located at the Depot, or at the Ashhurst and Fitzherbert Parks, some heavy plant is fuelled by the Tanker.) Therefore excluded are fuel tanks, tanker issues and issues to small plant
× Cost effectiveness of Tanker
× Alternative procurement options
× Fuel and oil tendering processes other than renewals
× Building vehicles in Manawatu District Council ownership and control but driven by PNCC staff.
× Fringe Benefit Tax compliance and Global Positioning System monitoring.

In scope

Aspects of the following matters were in scope:

Internal control
　Policies and procedures
　✓ Application of Management Team Policies such as for vehicles, for purchasing, for risk management and for fraud
　✓ Guidelines
　✓ Individual accountability for fuel use
　✓ Allocation fuelling responsibilities for vehicles to staff
　✓ Issue and recording of fuel cards
　✓ Security of cards
　✓ Complete list of cards and card holders
　✓ Spare cards
　Monitoring
　✓ Entry of odometer and fuel data to BP Application
　✓ Follow up of missing odometer or driver data
　✓ Exception reporting and follow up
　✓ Financial or non-financial performance measures if any
　✓ Reporting
　Plant costing
　✓ Checking prices, Goods and Services Tax (GST), accounting allocation codes, duplicates, and then approval of fuel invoices

- ✓ Plant costing error detection and correction
- ✓ Timeliness of processing invoices

Procurement matters

- ✓ Implementation of new contracts register process for procurement reminders
- ✓ Preparation for All of Government contract roll over (May 2017)

Management and supervision

- ✓ Tone at the top
- ✓ Direction, organisation, expectations for control and compliance with control processes
- ✓ Resourcing of monitoring and investigative activities
- ✓ Improvement initiatives
- ✓ Fraud awareness and training
- ✓ Controls self-assessment

Risk management

- ✓ Risk profiling. E.g. by type of vehicle, engine size, make or model, frequency of errors, size of errors, known gaps in control not otherwise addressed, employee red flags indicators of fraud, culture
- ✓ Fraud hot line
- ✓ Senior management oversight

Governance

- ✓ Reporting systems
- ✓ Resourcing

Any other matter related to meeting the audit objective

1.4 Approach

Our approach was to:
- Identified applicable policies and procedures, Guidelines and Management expectations for fuel card management
- Ascertained, documented and walked through systems end to end and interview staff for the operation of identified controls in practice compared to expectations. (staff interviewed included GM City Enterprises (Project Sponsor), Plant and Logistics Manager, Management Accountant, Financial Systems Coordinator, Business Development Executive, Records Team Leader, Plant Supervisor, Works Administration Officer)
- Designed appropriate testing of controls including sample checks of vehicle and plant fuel usage.

Definitions
- BP Application – BP New Zealand (BP PLC) On-line fuel card management system.
- Plant Application – PNCC on-line plant management system.

1.5 Limitations of Approach

We have carried out this audit in compliance with the International Standards for the Professional Practice of Internal Auditing. We relied on the information provided by staff we interviewed, supported where possible by cross checking, observation and documentation. All of our findings falling within scope are reported and assessed as Low to High risk using professional judgement. In addition, those matters that were identified as requiring management action, but outside of the scope, were reported to management for completeness. Our analysis of controls was based on comparison of the condition of our sample against the criteria, the causes of the condition found and the consequences, if left unaddressed.

2. Summary of Issues

Recommendation	Risk Rating		
	High	**Medium**	**Low**
1. Unreliable records of who was using the fuel card a) Provide an auditable audit trail to the person who used the fuel card.		✓	
2. Manual interfaces between applications a) Use Web services to automate the interfaces between Plant Running and Ozone and BP Application and Ozone financial and modular system.			✓
3. Risk that proposed monitoring solution is not fit for purpose a) Complete a business requirements analysis, stakeholder analysis, functionality requirements and solutions analysis.			✓
4. Inaccurate entry of odometer data, difficulties in follow up of missing data a) Ensure that accurate odometer data is available for monitoring purposes including obtaining or correcting missing or inaccurate odometer readings and store in the database. b) Design a reporting solution that includes a data validation input control. c) Support the escalation process and identify and resolve outstanding issues. d) Report on all plant with a fuel card with an odometer or hour meter.		✓	
5. Manual irregular review of fuel volume data with no methodology or tool for monitoring or for the follow up of exceptions or for documenting that follow up a) Determine what will be an exception for reporting purposes that will require investigation. b) Record the follow up completed in the database solution.	✓		
6. Available fuel card monitoring tools did not include duplicate fill exception reporting and tank size exceeded reporting a) Develop an exception report as part of 3 a) to identify all instances of dual filling by date and time range and investigate/document those exceptions. b) Add the vehicles fuel tank capacity to the Plant		✓	

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database.			
7. **Fuel card physical security could be improved and use of spare card should be monitored** a) Change the vehicle fuel card Person Identification Number (PIN) at regular intervals. b) Monitor the fuel use of the Fleet fuel card. c) Enter the Plant being refuelled in the odometer field.			✓
8. **No Guideline and informal induction for fuel cards use** a) Prepare a Guideline and make all staff aware of its requirements, including at induction.			✓
9. **Fuel card monitoring not being used for fleet management purposes** a) Refer to 3 a).		✓	
10. **No checking of prices or discounts on BP fuel invoices** a) Determine who is responsible for completing the invoice checking task. b) Include a methodology and tool to monitor the fuel prices in the planned monitoring solutions analysis 3 a).			✓
11. **No metric or key performance indicator (KPI) for governance** a) Management should receive a report includes the grand average fleet fuel efficiency.	✓		

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3. Detailed Findings & Recommendations

Audit Issue	Risk	Recommendation	Management Comment
1. Unreliable records of who was using the fuel card Criteria There should be individual accountability for fuel cards. In some situations it could be desirable to know who was driving and fuelling a vehicle to complete an enquiry (e.g. town use vs out of town user). Condition PNCC used a manual system to record who drove a vehicle, the kilometres travelled and the business purpose. The two recording methods used were the Plant Running Sheet (or yellow card) and information on the Timesheet. This information (or part of it) is entered into the Plant Application. Odometer data is also entered into the BP Application by the driver at the gas station when the card is swiped. It was not always reliably possible to tell who was fuelling the vehicle from transaction data. The original running sheets/timesheets were not easily searchable (if at all) to identify who fuelled the vehicle. Causes There was no field to enter the driver of a vehicle when entering odometer data. Consequences Individual accountability may be lost. Fuel monitoring reporting may not be complete.	Medium	Management should: a) Provide an auditable audit trail to the person who used the fuel card. E.g. Provide a Database table field on the Plant Application Running Sheet Entry screen (in house application) to record the driver of a vehicle when entering data. For team vehicles add a field to the timesheet to record the re-fueler. E.g. Online booking system for Plant (See also issue 3 a) below). Responsibility: Plant and Logistics Manager Timing: A decision will be made by end of December 2017	a) Agreed that a record of the user's name for each use would be optimal and will be included in the review at 3a. Action suggested is to look for ways of recording the name of the person responsible for each fuel card's use. In the case of booked pool cars and dedicated vehicles that is already the case – the named person is accountable. In the case of vehicles available to a number of people on an ad hoc basis, such as some team vehicles, that needs more thought.

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2. Manual interfaces between applications Criteria Automated interfaces between applications have the opportunity to save time and to reduce the potential for errors. Condition We noted that there were at least two opportunities to run a Web Service to automatically interface the applications that feed the Council's Ozone financial and modular system. These opportunities were trialled approximately three years ago for the interface with the BP Application, but not proceeded with. Interfaces to Plant Running were run daily. Interfaces to BP Application were run weekly. There was anecdotal evidence that sometimes an error occurred in the interface e.g. double posting of journals. Manual control was also moderately time consuming. Causes The issues at the time automatic interfaces were investigated approximately three years ago were that the BP data contained more table columns that PNCC needed to import. Also, trials produced multiple errors. PNCC have recently moved to a Sequel Query Language (SQL) back-end to Ozone. It maybe that the preferred interface application, Sphere can offer more functionality than three years ago, as software and hardware advances are made. Consequences Interfaces are manual, prone to errors (e.g. double import) that are hard to fix up, may be delayed affecting review and take time to run every day.	Low	Management should: a) Use Web services to automate the interfaces between Plant Running and Ozone and BP Application and Ozone financial and modular system. Responsibility: Logistics and Support Manager (will initiate) Timing: Before end of June 2017	a) Agreed and will implement, if practical. This is a possible project in collaboration with the IT Business Solutions team.

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3. Risk that proposed monitoring solution is not fit for purpose Criteria The purposes of fuel card monitoring should be clarified and an appropriate reporting tool that addresses the business requirements should be implemented. Stages in the process should include a simple business requirements, stakeholder and solutions requirements analysis. For example: Business requirements analysis would: ✓ Contain the problem definition, the vision, the constraints, the business objectives, the business process analysis, the stakeholder analysis, the IT service impact. The stakeholder requirements analysis would: ✓ Identify the user needs - documented usually by a review of user scenarios. Senior management envisaged that a monitoring solution was required that would include the reporting of litres consumed per 100 kilometres travelled. The solutions requirements analysis would : ✓ Set out what the system will do – its functionality. This might include: – fuel card user name; – data validation and correction; – litres per 100 km reporting by exception; – duplicate fill exception reporting; – tank size exceeded exception reporting; – checklist table recording follow up checks completed on exceptions; – grand average fleet litres per hundred km; – average litres per 100 km by vehicle type; – litres per 100 kms travelled by vehicle type comparison exception reporting. We identified the following long list of software solutions options: do nothing; use Excel spreadsheet; use BP Application reports; request BP to customised reporting; use Plant system Database; use Plant system Databased linked to Pivot tables, hybrid solution using plant Database where	Low	Management should: a) Complete a business requirements analysis, stakeholder analysis, functionality determination, and solutions analysis. Responsibility: Logistics and Support Manager Timing: Before end December 2017	a) Agreed and will implement. This is the review of the fuel card monitoring and reporting system that needs to occur. It is on the Logistics and Support Manager's draft work plan for financial year 2017-18.

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available plus BP data when Plant data is not available, use Smartrak fuel monitoring reporting based on Global Positioning System data. Condition The tools used to monitor fuel use were volume of fuel used and fuel cost by month compared to average – exceptions greater than 50% reported. The second tool was the BP invoice transactions. At the time of our review there was no report of litres of fuel per 100kms travelled. Consideration had been given to implementing a solution using the reports available via BP Application. In addition, some initial discussions had been held with Information Management staff about completing maintenance on the existing reports from the Plant Application and BP Application data. We concluded that the approaches taken to date risked not meeting the organisational objective of a tool that met the business purposes. Objectives were unclear, there were no project constraints, existing process had not been considered for reengineering and functionality had not been sufficiently defined. Causes Lack of a defined process being followed. Consequence An incomplete solution may be produced that does not prove fit for purpose.			
4. Inaccurate entry of odometer data, difficulties in follow up of missing data Criteria Odometer data needs to be accurately entered by fuel card users (the	Medium	Management should: a) Ensure that accurate odometer data is available for monitoring purposes including obtaining or correcting missing or inaccurate odometer readings and store in the	a)&b). Agree and will implement. Refer 3(a). Correct odometer readings are essential to good fleet management, and obtaining them all the time is

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drivers) at the point of fuelling into the BP Application (using the garages card swipe device) and into the Plant system (later from the running sheet or time sheet) on completion of a journey. The records should be entered or corrected when not entered or entered incorrectly. Condition Most vehicles have Plant running data (exceptions would be for example leased vehicles such as the Hino Refuse trucks). We noted 12/183 vehicles had missing odometer data (BP Application) and 27/183 Plant with Fuel cards did not record odometer data (BP Application). The data about the 12 may be available from the Plant system. Although there was a staff responsible for follow up of missing or incorrect odometer data this was not retrospective. There was no means to store the corrected data (Database). Cause Inevitably there is human error in entering odometer data. There can also be improper reasons for not entering the data, or confusing the data. There were several factors why odometer data was unreliable: o There was no input control or validation when entering odometer data on refuelling. o There was no means to correct odometer data once entered. o There was anecdotal evidence that the escalation system was o Ineffective for some staff. o Some vehicles were exempt from odometer readings based on a list provided by the Unit. o Data corrections could not be stored. o It was determined that the veracity of odometer readings did not require systematic review. Consequence Fuel monitoring reports may fail to work or not available by design.		database. b) Design a reporting solution that includes a data validation input control. c) Support the escalation process and identify and resolve outstanding issues. d) Report on all vehicles with a fuel card with an odometer or hour meter. Responsibility: a) ,b),d) Logistics and Support Manager Timing: Before end of December 2017 Responsibility: c) General Manager City Enterprises Timing: Before end December 2017	problematic. Whether they will ever be 100% correct at the point of entry is uncertain - the driver at the service station can accidentally enter the incorrect reading. Commercial fleet management software is available that will provide the data gathering and exception reporting referred to. Whether this would be cost-effective for a relatively small fleet would form part of the discussion as part of the review referred to in 3(a). c) Agree and will implement. d) Agree and will implement.

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Exceptions were not resolved. Staff reputations not protected.			
5. Manual irregular review of fuel volume data with no methodology or tool for monitoring or for the follow up of exceptions or for documenting that follow up Criteria Staff responsible for monitoring fuel use needed the tools to complete the task effectively. If an exception is identified by that monitoring the reasons should be systematically researched and recorded to demonstrate timely completion of the process and in case evidence is needed in future. Condition There was manual and irregular monitoring of fuel volume and costs. Fuel monitoring cannot be effective unless it takes into account both kilometres travelled and fuel used. There was no such reporting available to staff, but a draft report was prepared during our review (20th March 2017). The need to follow up exceptions, the methods to be used, and the appropriate documentation process had not been set up. Causes Staff thought the objective of monitoring was fraud detection and they assessed this was not a high risk. Therefore systematic exception reporting was not completed. Consequence The Council's fuel could have been put at risk. Sub optimal decisions might be made about purchases or vehicle maintenance.	High	Management should: a) Determine what will be an exception for reporting purposes that will require investigation. b) Record the follow up of exceptions completed in the database solution. Responsibility: Logistics and Support Manager Timing: Before end December 2017	a)-b) Agreed and will include in the review referred to in 3(a).

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6. Available fuel card monitoring tools did not include duplicate fill exception reporting and tank size exceeded reporting Criteria The available tools to report fuel used per 100 kilometres travelled should be extended to identify instances where fuelling exceeds the fuel tank capacity or the fuel is a duplicate fill (by date and time range). Condition The methods used to monitor fuel used were irregular and manual: o Duplicate fills by date and time were not systematically identified for review from amongst all the data. We ran a report to identify and review these and we found no evidence to refer for further review. o In some cases, the fuelling data raised a question as to if the fuel tank size was exceeded by the fill. This could only be answer by checking the vehicle specifications (e.g. this is often readily available online). We resolved the queries we had in our sample using the specification information. Causes A manual control of reviewing the data on each fuel invoice was not a reliable method. Obtaining tank size data for the database would require reference to the vehicle specification. Consequence Duplicate filling or filling in excess of fuel tank capacity might not be detected.	Medium	Management should: a) Develop an exception report as part of 3 a) to identify all instances of dual filling by date and time range and investigate/document those exceptions. b) Add the vehicles fuel tank capacity to the Plant database. Responsibility: Logistics and Support Manager Timing: Before end of December 2017	a)& b) Agreed and will include in the review referred to in 3(a). Fuel tank capacity can easily be added to the Plant database, rather than relying on the reviewer's memory. However an exception reporting system would still be needed to make the most of that data in a systematic way. Commercial fleet management software is available that will provide the data gathering and exception reporting referred to. Whether this would be cost-effective for a relatively small fleet would form part of the discussion as part of the review referred to in 3(a).
7. Fuel card physical security could be improved and use of spare cards should be monitored	Low	Management should: a) Change the vehicle fuel card	a) Disagreed. This poses

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Criteria Fuel card security should be sufficient to prevent abuse by third parties or by staff who are not accountable for the card. Use of the spare cards should be monitored. This is prevention as no examples of abuse were found. Condition Cards are stored in vehicle glove boxes or attached to the vehicle's key ring. Abuse of fuel cards by a third party removing them from the vehicle is prevented by use of a Personal Identification Number (PIN). There was a concern that the general PIN was never changed and the spare cards were not supervised. Missing or lost cards are reported, deactivated and replaced one for one. The PIN is simple and not changed. There are four fuel cards that are not allocated to vehicles and are used to manage the fleet, garage and car pool (2). The fuel use is coded to a separate job for each card. The Fleet card was not monitored. Causes There is a perceived need for simplicity. A monitoring control over the Fleet card was missing by design. Consequences The PIN may become known to third parties over time. The spare card could be misused without knowledge.		PIN at regular intervals. b) Monitor the fuel use on the Fleet fuel card. c) Enter the Plant being refuelled in the odometer field. Responsibility: Logistics and Support Manager Timing: Before end of December 2018	practical problems and may have the opposite effect of drawing attention to the PIN. There have been no issues due to this. b) Agreed and will implement. c) Completed.
8. No Guideline and informal induction for fuel card use	Low	Management should: a) Prepare a Guideline and	a) Agreed and will implement.

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Criteria It is expected that management or staff will document the procedures to be followed for control of Council fuel and fuel cards. A Guideline should document at least these things: Lost or damage replacement procedure for a fuel card to be one for one; card only to be used to fuel specific vehicle (except the two Fleet/Carpool cards); fuel use will be monitored and discrepancies will be investigated; cards to be kept secure including PIN; fuel tank to be fully filled; odometer must be entered and consequences of not doing that: suggestion for ensuring correct odometer is entered using phone; KPIs and expected timing for the follow up of exceptions resulting from monitoring; consequences of abuse of system; the Fraud Hotline information. Condition There was no Guideline for the use of fuel cards by staff. There were informal requirements for the use and management of the cards. There was no staff induction related to Fuel Card use. Cause We do not know why the procedures are not recorded formally. Consequence The requirements for fuel card use may not be fully communicated to staff or followed by them. The expected processes may not be followed.		make all staff aware of the requirements, including at induction. Responsibility: Logistics and Support Manager Timing: Before end of June 2018	It will be incorporated in the review referred to in 3(a). A Guideline will be documented. Training in the use of the fuel cards is currently informal on an ad hoc basis and this will be formalised.
9. Fuel card monitoring not being used for fleet management purposes Criteria	Medium	Management should: a) As part of the review proposed in 3 a) look at the existing business processes for vehicle purchase, vehicle	a) We agree that this is useful information to be included in the Review 3a). The model's specified fuel

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o Real world data is the best information for use in vehicle purchasing decisions because it is reported that actual data for business use can differ by up to 45% to the manufacturers published data. o The identification of vehicles with sub optimal engine performance for maintenance could save up to 30% in unnecessary fuel consumption from defective settings. o The identification of drivers with poor driving habits and remedial action such as training could save up to 30% of the vehicle running costs. Condition We reviewed the purchasing report used to acquire 3 vehicles in the sub compact class. Fuel costs amounted to approximately five percent of the vehicle costs in year one and 50 percent over ten years. Published fuel consumption data was provided, but not PNCC historic usage information. Fuel consumption data (litres per 100km) was not used either of the second two b) and c) categories of interest either. Staff reported using a manual system for vehicle maintenance purposes. Causes The business purposes of fuel monitoring had not been progressed and a report designed to meet those purposes. Consequences Fuel use and costs may be up to 30% greater than achievable. A decision may be made to purchase one type of vehicle based on inadequate information.		maintenance and driver behaviour to determine how fuel card reporting can better assist to meet the organisational requirements. Responsibility: Logistics and Support Manager Timing: Before end December 2017	performance is already one of the key aspects discussed as part of any capex recommendation. Commentary on historic usage data of similar vehicles in PNCC's fleet forms part of that, where available. The information is provided by the Fleet Supervisor in both cases. For example, most recently in Capex CE382 for 3 x Mitsubishi Mirages, it was observed that maker's information states they have very low fuel consumption at 4.9 litres/100km., and it was commented on in discussions that in PNCC's operating environment we find this is closer to 7.5 litres/ 100km in practice.
10. No checking of prices or discounts on BP fuel invoices	Low	Management should: a) Determine who is responsible	a) Completed. It was agreed

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Criteria There should be sufficient assurance that the prices and discounts applied to the BP fuel invoices are accurate and correct for contract management purposes. **Condition** There was no checking of the prices or discounts. Invoices could arrive at irregular intervals and consisted of many pages. BP pricing is a discount on individual gas station prices. BP provided the gross price information on the fuel dockets and discount information is available from the contract the appropriate staff required assistance with a process to check the prices. **Causes** Responsibility for the performance of the task was not agreed. **Consequences** There was no assurance the charges made by BP are always correct. The amount charged for fuel purchases could be incorrect.		for completing the invoice checking task. b) Include a methodology and tool to monitor the fuel prices in the planned monitoring solutions analysis 3 a). Responsibility: Finance Manager & Manager Logistics & Support Timing: Before end October 2017.	that City Enterprises will do this. b) Agreed and will include in the review at 3a.
11. No metric or key performance indicator (KPI) for governance Criteria KPIs and metrics can be useful management and governance tools. Metrics are used to measure the performance of a process. Key performance indicators address important business processes. A grand average fuel use per 100 kilometres travelled key performance indicator for the whole Council fleet would be a useful tool to monitor an objective of making transparent the Council's fleet efficiency.	High	Management should: a) Receive a quarterly report on monitoring that includes the grand average fuel efficiency of the Fleet. Responsibility: Logistics and Support Manager	a) Agree and will implement. Greater use of industry-standard metrics should be used. Selection of these and where the data might be obtained from and the format of report(s) can be incorporated in the review referred to in 3(a).

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Condition There was no overall key performance indicator for vehicle fleet fuel efficiency. We understand that the grand average fuel usage for the Fleet based on one year's data approximately 29 litres per 100km travelled. **Cause** Perhaps the potential had not been identified. **Consequence** Management may lack sufficient objective information about progress in efficiency of the fleet.		Timing: Before end of June 2018	Metrics can include averages for common classifications of vehicles as used in PNCC's operating environment (short, urban journeys, many starts and stops, in low gear and cold running). The average fuel consumption benchmarks therefore need to be realistic and reflect that.