



COMMISSIONERS COURT
COMMUNICATION

REFERENCE NUMBER

PAGE 1 OF

13

DATE: 10/7/2008

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT OF CONTROLS OVER COUNTY FUEL OPERATIONS**

COMMISSIONERS COURT ACTION REQUESTED:

It is requested that the Commissioners Court receive and file the Auditor's Report of Controls over County Fuel for the eighteen months ending June 30, 2008.

BACKGROUND:

In accordance with Local Government Code, Subchapter A, Sections 115.001 Examination of Records, 115.002 Examination of Books and Reports, and 115.0035 Examination of Funds Collected by County Entity, the Auditor's Office reviewed controls over the County's fueling system. The objective of the review was to determine whether controls were adequate to reasonably ensure that County fuel was safeguarded from misuse.

FISCAL IMPACT:

There is no fiscal impact associated with this item.

SUBMITTED BY: Auditor's Office

PREPARED BY: S. Renee Tidwell
APPROVED BY:



TARRANT COUNTY

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September 10, 2008

Mr. G.K. Maenius, County Administrator
Ms. Renee Lamb, Director, Transportation Services Department
The Honorable District Judges
The Honorable Commissioner's Court
Tarrant County, Texas

RE: Auditor's Report – Controls Over County Fuel

SUMMARY

In accordance with Local Government Code, Subchapter A, Sections 115.001 Examination of Records, 115.002 Examination of Books and Reports, and 115.0035 Examination Of Funds Collected By County Entity, we reviewed controls over the County fueling system for the eighteen months ending June 30, 2008. The objective of our review was to determine whether controls were adequate to reasonably ensure that County fuel was safeguarded from misuse. During our review, we found that controls over the County's fuel were not adequate. Specifically:

1. Controls over fuel card transactions were not adequate.
2. Controls were not adequate over manual operations.
3. General controls over the Phoenix System should be improved.
4. Unissued fuel cards were not properly safeguarded.
5. Physical controls over the fuel sites could be improved.

We discussed our observations and recommendations with appropriate management and staff of the Department of Transportation Services and management at precinct maintenance locations. Attached is a response to this report from the Director of Transportation Services.

BACKGROUND

Since 1980, Tarrant County has maintained an inventory of diesel, propane, and unleaded gasoline at four facilities; Precinct 1 Maintenance, Precinct 3 Maintenance, Precinct 4 Maintenance, and the Central Garage. Each precinct has a Director of Field Operations who is responsible for the general oversight of fuel operations. The Director of Transportation Services is responsible for fuel operations at the Central Garage.

About two years ago, the County purchased and implemented the Phoenix Fuel System to record transactions at each fuel site. The Director of Fleet Management of the Transportation Services Department is responsible for the general oversight of the Phoenix Fuel System. Unless the fuel sites are using a manual operation, a fuel card is required to obtain fuel. Currently, the cards are not issued to specific individuals; rather, the cards are issued to a specific vehicle.

At month-end, the Director of Fleet Management submits a system-generated report to the Auditor's Office to record fuel expenses into the general ledger and to bill fuel used by other municipalities.

During the 18 months ending June 30, 2008, over 83,000 fuel transactions were recorded on the Phoenix Fuel System. During fiscal year 2007, the County's fuel expense totaled in excess of \$1.6 million. As of June 30, 2008, the County had incurred fuel expenses totaling about \$1.8 million.

OBSERVATIONS AND RECOMMENDATIONS

Observation 1 - Controls over fuel card transactions were not adequate.

During our review, we found that controls over fuel card transactions were not adequate. Specifically, we identified the following conditions:

1. Controls have not been implemented to provide accountability over individual fuel transactions. Therefore, we could not conclusively determine whether individual fuel transactions were appropriate. During our review, the Phoenix System showed 842 active fuel cards. According to the Phoenix System, the cards were not assigned to a specific user, but rather to a specific County vehicle or department. The Director of Fleet Management maintains a list of the fleet inventory which shows some County vehicles assigned to specific drivers. The remaining vehicles are considered "pool" vehicles which are shared by multiple County employees. Therefore, the fuel card stays in the vehicle and multiple individuals use the card.

Our review excluded transactions by individuals whose job duties required on-call availability 24 hours a day, such as drug enforcement agents and the sheriff's patrol. During June 2008, 21 transactions occurred between the hours of 10:00 p.m. and 5:00 a.m. on a week day or during a weekend. Only six of these transactions were referenced to a vehicle that had been assigned to a specific driver according to the fleet inventory list. Although management provided explanations, we were unable to verify their assertions due to the lack of controls. The remaining 15 transactions referenced a County pool vehicle. As a result, it is not possible to determine whether fuel transactions were appropriate.

2. The Director of Field Operations at each fuel site is ultimately responsible for its fuel budget and fuel activities. However, procedures have not been established whereby usage reports, detailing the time and date of fuel transactions, are reviewed for reasonableness. As a result, unauthorized and inappropriate fuel transactions may not be detected.
3. A record or log detailing historical information related to issuance and/or deletion of fuel cards was not maintained. When a card was replaced due to loss or malfunction, it was deleted from the system. As of July 7, 2008, documented historical information related to 168 fuel cards was not available.
4. According to the Director of Fleet Management, fuel cards were deleted from the Phoenix system because either the cards were defective or misplaced. The system-generated report provided to the Auditor's Office to record the County's fuel expense and to bill other municipalities did not include transactions of deleted fuel cards. As a result, fuel expense was not accurately recorded onto the County's general ledger, and fuel used by another municipality was not billed accurately. Since historical information did not exist at the time of our review, we were unable to conclusively quantify the misstated fuel expense or the amount under-billed to the municipality.

Recommendations

We recommend that controls over the accountability of fuel card transactions be improved. Specifically:

1. The Transportation Services Department should consult with the vendor of the Phoenix System to make system changes to improve controls over fuel transactions. At a minimum, the system should record the user's name and the date and time of each transaction. The system provides options that would provide this information, including the use of unique PIN numbers with or without a card. Management should also consider restricting the quantity and type of fuel, and weekend fueling activity for certain users.

2. Monthly reports detailing fuel transactions, including the card user's name and the date and time of each transaction, should be generated and sorted by County department. These reports should be provided to department heads for review. The department head, or designee, should review the information on the reports for accuracy and reasonableness, including the quantities purchased and the date and times of the fuel transactions, for each user. Upon review of the report, the department head or designee should sign and date, indicating their approval of the transactions, and return the report to the Director of Fleet Management.
3. The Director of Fleet Management should consult with the vendor of the Phoenix System to determine whether the system can provide periodic reports listing each fuel card number including information such as the date of activation, deletion, invalidation, reactivation, or re-issuance of the cards. If these system-generated reports are not available, we recommend that the Director of Fleet Management maintain an Excel spreadsheet documenting such historical information.
4. During our review, staff discontinued the practice of deleting fuel cards from the system. Instead, the card is invalidated on the system to deactivate the card. By invalidating the card, the previous transactions recorded on the system are preserved and will be included in the monthly reports submitted to the Auditor's Office to record fuel expense and to bill other municipalities. No additional recommendation is necessary at this time.

Observation 2 – Controls were not adequate over manual operations.

Each fuel site is capable of changing the operation to a "manual" setting in the card reader box. A special key is required to convert the system to a manual operation. The manual operation does not require a use of fuel card. Fuel transactions are not recorded onto the Phoenix System while using the manual operation. During our review period, we identified two sites that switched to a manual operation for a period of time. No documentation existed indicating the individual or the date and time that the system was converted to a manual operation. Both of the sites remained accessible 24 hours a day, seven days a week.

Although procedures were established requiring each employee to complete a manual receipt for each transaction, monitoring did not occur to determine whether or not the employees completed and turned in the manual receipts. As a result, unauthorized and inappropriate fuel transactions would be impossible to detect.

Recommendations

Precinct managers should notify the Director of Fleet Management when the system is converted to manual operation. The Director of Fleet Management should document the individual who initiated the manual operation, the reason, and the date the system was converted to manual operation. Furthermore, since it is not feasible to provide continuous monitoring during manual operations, we suggest that fuel operations be discontinued after business hours when the fueling system is set to a manual operation. In situations where fuel operations at a site must be discontinued, users should be notified to obtain fuel at another site. Since manual operation should be at a minimum, the Phoenix System should be reactivated in a timely manner.

Observation 3 - General controls over the Phoenix System should be improved.

During our review, we found that general controls over the Phoenix System should be improved. Specifically:

1. The Phoenix System software was installed only on the Director of Fleet Management's workstation. According to staff, only one license for the software was purchased. Therefore, the Director of Fleet Management shared the computer log-in password in order for her assistant to have access to the system. Sharing passwords is a violation of the County's Information Technology Security Policy.
2. The manufacture's literature states that the Phoenix System is capable of storing up to 1,800 transactions. Typically, the Director of Fleet Management downloads fuel transactions from each fuel site into the system fuel control tower on a daily basis. When the Director of Fleet Management took extended vacations, this download did not occur. As a result, one precinct was forced to switch to the manual operation for a short period of time since the data stored on the system was at maximum capacity. Although another individual had been cross-trained to perform the daily and monthly functions related to the fuel system, the individual stated that she was not confident in her ability to do so.
3. We could not always rely on the accuracy of the time and date recorded for certain transactions. Procedures had not been implemented to periodically review the transaction reports for accuracy and reasonableness. For example, the time and date was not recorded accurately during a 5-month period for one of the precinct locations. A supervisor for this precinct requested that the vendor reset the time and date. The Director of Fleet Management was not informed of time clock error or subsequent reset at the site.

Recommendations

In order to strengthen general controls over the Phoenix System, we recommend that the Director of Fleet Management perform the following:

1. Request funding for an additional license for the Phoenix System. Furthermore, the practice of sharing passwords should be discontinued to comply with the County Information Technology Security Policy.
2. Provide staff with continuous training to perform daily and monthly functions related to the fuel transactions. This should also include training to download daily transactions for each fuel site to avoid maximum capacity of stored fuel data.
3. Implement procedures to monitor the daily transactions, including the date and time, recorded in the Phoenix System for each precinct. Department heads should be notified if unusual transactions are observed. As recommended in Observation 1, monthly reports detailing fuel transactions should be generated and provided to the department heads to review for reasonableness. We also recommend that the Director of Fleet Management request all vendor services related to the Phoenix System. Additionally, vendor services, including the resetting of the date and time, should be documented by the Director of Fleet Management.

Observation 4 - Unissued fuel cards were not properly safeguarded.

We observed that blank fuel cards were stored in an unlocked drawer. The cards require activation before they can be used. However, the Phoenix System is installed on a workstation and does not require an additional user password. The workstation does not automatically log off after a certain time of inactivity. Therefore, unauthorized activation of a blank fuel card could occur.

Recommendation

Blank fuel cards should be stored in a secured place. We also recommend that the Transportation Services Department consult with the Information Technologies Department to either implement password protection to the Phoenix system or automatic workstation log-off after a period of inactivity.

Observation 5 - Physical controls over fuel sites could be improved.

The County fuel sites are secured by a chain link fence. The gates entering the sites remain open during the day. During evening and weekend hours, access to each fuel site is obtained by using a specified access code that opens the gate. During our review, we found that physical controls over the fuel sites could be improved. Specifically, the fuel sites are not equipped with security cameras or other devices to monitor evening and weekend activity.

Recommendation

In order to improve physical controls over the fuel sites, we recommend that the installation security cameras or other monitoring devices be considered.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our review was to determine whether controls were adequate to reasonably ensure that County fuel was safeguarded from misuse. The implementation and application of effective internal control is the responsibility of the management. It is our responsibility to review and assess the effectiveness of the controls. Internal control is broadly defined as a process designed to provide reasonable, not absolute, assurance regarding the achievement of objectives such as the safeguarding of assets, reliability of financial reporting, and compliance with applicable laws and regulations.

CLOSING REMARKS

We appreciate the cooperation of the Transportation Department and the County precinct offices during our review. If you have any questions concerning this report, please don't hesitate to call.

Sincerely,



S. Renee Tidwell, CPA
County Auditor

Attachment:

Transportation Services Response dated September 25, 2008

Distribution:

T.C. Webster, Director of Field Operations, Precinct 1 Maintenance
Neal Welch, Director of Field Operations, Precinct 3 Maintenance
William Russell, Director of Field Operations, Precinct 4 Maintenance
Joylee Russell, Director of Fleet Management, Transportation Services Department
Suzanne McKenzie, Manager, Financial Accounting

Team:

Kim Trussell, Audit Manager
Maki Ogata, Internal Auditor



TARRANT COUNTY TRANSPORTATION DEPARTMENT

September 25, 2008

RE: Auditor's Report – Controls Over County Fuel

TRANSPORTATION SERVICES RESPONSE

The Tarrant County Auditor recently completed a review of the controls over the County fueling system for the eighteen months ending June 30, 2008. During this review, the Auditor identified five areas in which she considered the current controls inadequate. I have reviewed the report and her recommendations and offer the following responses.

Observation 1 - Controls over fuel card transactions were not adequate.

When the Phoenix Fuel System was installed, it was primarily utilized as a tool to track fuel usage and accurately charge individual departments for the gas they consumed. For that reason, fuel cards are assigned to specific County vehicles or departments rather than to specific individuals. Cards are deleted, and a new card assigned, for two primary reasons - the cards either stop functioning or are lost.

Recommendations

- 1. The Transportation Services Department concurs with the Auditor's recommendation that the system should record the user's name and the date and time of each transaction.** We are currently working with the vendor to implement the use of unique PIN numbers for individual users. We will test the PIN number process within the Transportation Services Department fleet before implementing it County wide.
- 2. The Transportation Services Department concurs with the Auditor's recommendation that monthly reports detailing fuel transactions, including the card user's name and the date and time of each transaction, should be generated and provided to Department Heads for review.** The Director of Fleet Operations will generate a monthly report for each Department assigned fuel cards. She will provide these reports to the Auditor for distribution. These reports are in addition to the report she is currently providing to the Auditor that details fuel usage by Department.

3. **The Transportation Services Department concurs with the Auditor's recommendation that there should be a log for each fuel card indicating the date of activation, deletion, invalidation, reactivation, or re-issuance of the cards.** The Director of Fleet Operations has confirmed with the vendor that the Phoenix System cannot generate this report. Instead, the Director of Fleet Operations has created an Excel spreadsheet that contains this information, including the reason a card was deleted from the system.
(NOTE: The Phoenix System can retrieve information regarding transactions on a deleted card simply by re-entering the card number into the system should that need arise.
4. **The Transportation Services Department concurs with the Auditor's recommendation that staff discontinue the practice of deleting fuel cards from the system.** The Director of Fleet Operations has identified, reinstated, and invalidated all the cards that were previously deleted. As recommended, staff will discontinue the practice of deleting cards and will invalidate them instead. Any such actions will be logged in the Excel spreadsheet discussed above.

Observation 2 – Controls were not adequate over manual operations.

Only someone with access to the key that opens the controller box can convert the system to manual operation. As noted in the Auditor's report, two sites were switched to manual operation during the 18 months they reviewed. Manual receipts were collected at each site, compiled into an Excel report by the Director of Fleet Operations, and forwarded to the Auditor along with the monthly Phoenix System report.

Recommendations

1. **The Transportation Services Department concurs with the Auditor's recommendation that Precinct managers should notify the Director of Fleet Operations when the system is converted to manual operation.** The Director of Fleet Operations will document the individual who initiated the manual operation, the reason, and the date the system was converted to manual operation. In addition, the Director of Fleet Operations will initiate the service call.
2. **The Transportation Services Department DOES NOT concur with the Auditor's recommendation that fuel operations be discontinued after business hours when the fueling system is set to a manual operation.** Several County Departments, including Sherriff's Patrol and the Constables, fuel at these sites. Transportation Services recommends that the Manager of each fueling site determine the best method to monitor fuel usage during manual operations. These methods may include closing the site after hours, but can also include alternatives such as assigning an employee to issue fuel tickets during manual operation. If the Manager decides to discontinue service, Departments should be given the option of using FuelMan cards until the fuel site is re-opened, or using alternative County fuel sites.

If the Manager elects to close the site during manual operation, he should notify the Director of Fleet Operations with the specifics of when the site will be closed. The Director of Fleet Operations will send out a Countywide email informing all users of the closure and will send a second email when the site is again fully functional.

- 3. The Transportation Services Department concurs with the Auditor's recommendation that the Phoenix System should be reactivated in a timely manner.**

Observation 3 - General controls over the Phoenix System should be improved.

As stated in the Auditor's report, only one license for the software was purchased when the Phoenix System was installed. To ensure continued operation during her absence, the Director of Fleet Management shared the computer log-in password in order for her assistant to have access to the system. We understand that sharing passwords is a violation of the County's Information Technology Security Policy; however, with only one computer having access to the software, staff had little choice.

The Auditor's report correctly states that one Precinct was forced to switch to manual operation over one weekend. The Precinct contacted the Director of Fleet Management on Monday and the problem was quickly resolved.

The Auditor also found where the time and date were incorrect at one site for an extended period. Neither the vendor nor County staff can determine why this happened. However, the Director of Fleet Management is now checking the time and date daily when she polls each site to prevent a reoccurrence of this problem.

Recommendations

- 1. The Transportation Services Department concurs with the Auditor's recommendation we purchase an additional license for the Phoenix System.** Transportation Services has ordered an additional license from remaining FY08 Capital. It should be installed next month. This will eliminate the need to share passwords.
- 2. The Transportation Services Department concurs with the Auditor's recommendation to provide staff with continuous training.** Staff will continue to poll sites daily, and is now also checking the date and time with each polling. Staff will seek educational opportunities as it relates to the Phoenix Fuel System.
- 3. The Transportation Services Department concurs with the Auditor's recommendation to monitor the daily transactions, including the date and time, recorded in the Phoenix System for each Precinct.** The Director of Fleet Operations will notify the Precinct if she observes any problems or unusual transactions during the daily polling. As discussed earlier, the Director of Fleet Operations will generate a monthly report for each Department that is assigned a fuel card and will provide these

reports to the Auditor for distribution. The Department heads will be responsible for reviewing the transactions generated by their employees.

4. **The Transportation Services Department concurs with the Auditor's recommendation that the Director of Fleet Management request all vendor services related to the Phoenix System.** The Director of Fleet Operations will initiate all vendor service requests, including resetting the date and time. All requests for service will be documented by the Director of Fleet Operations.

Observation 4 - Unissued fuel cards were not properly safeguarded.

Previous to this audit, blank fuel cards were stored in an unlocked drawer at the Director of Fleet Operation's desk. She did not see this as an issue since the cards require activation before they can be used, and only two people are trained in the activation process.

Recommendation

1. **The Transportation Services Department concurs with the Auditor's recommendation that blank fuel cards should be stored in a secured place.** Cards are now stored in a locked drawer.
2. **The Transportation Services Department concurs with the Auditor's recommendation that password protection is necessary.** However, the Phoenix System does not have this additional layer of protection. We do not perceive this as a problem because the computers that house the software are located in an open area and have standard County password protection in place. In addition, only two people are trained in the activation process. Should password protection become available in future versions of the Phoenix System, we will use it.

Observation 5 - Physical controls over fuel sites should be improved.

As described in the Auditor's report, the County fuel sites are secured by a chain link fence with gated entrances. An access code is required during evening and weekend hours to access the fuel site.

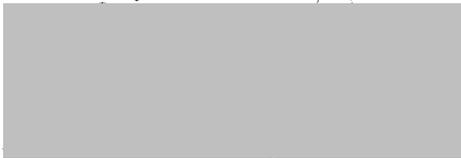
Recommendation

1. **The Transportation Services Department concurs with the Auditor's recommendation that the installation security cameras or other monitoring devices be considered.** Transportation Services Department will contact Facilities Management to discuss the feasibility of including these devices in a future budget.

CLOSING REMARKS

As reflected in my response to the Auditor's report, Transportation Services concurs with most of the recommendations in this report. I appreciate that the Auditor's staff met with managers at each site, and that they spent considerable time learning about our operations before formulating their recommendations. I believe the observations and recommendations contained in this report will enable us to better safeguard against inappropriate fuel usage while maintaining the high level of customer satisfaction we currently enjoy. In particular, I want to thank Ms. Trussell for the professional manner in which she responded to our comments on the draft version.

Sincerely,



Renee Lamb
Director Transportation Services

CC: T.C. Webster, Director of Field Operations, Precinct 1 Maintenance
Neal Welch, Director of Field Operations, Precinct 3 Maintenance
William Russell, Director of Field Operations, Precinct 4 Maintenance
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