

LEGISLATIVE AUDIT DIVISION

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MEMORANDUM

TO: Legislative Audit Committee Members
FROM: Lisa Blanford, Performance Auditor Manager
CC: Janet R. Kelly, Director, Department of Administration
Tim Reardon, Director, Department of Transportation
DATE: January 2012
RE: Performance Audit Follow up 11SP-26: Montana Public Vehicle Fueling Program (orig. 10P-02)
ATTACHMENTS: Original Performance Audit Summary

Introduction

In June 2010, the performance audit of the Montana Public Vehicle Fueling Program was presented to the Legislative Audit Committee. Four recommendations were made to the Department of Administration (DOA) and four to the Department of Transportation (MDT). Beginning in the fall of 2011, we gathered information from the departments on their progress in implementing the audit recommendations. This memo presents background information and summarizes the results of follow-up work.

Overview

Audit recommendations stressed strengthening policies and controls over use of fuel purchasing cards and bulk tanks by incorporating industry best practices into existing management. The Department of Administration implemented all four of the recommendations. The Department of Transportation implemented three recommendations and partially implemented the fourth.

Background

As state employees use public vehicles, they must have a way to purchase fuel. DOA manages the Montana Public Vehicle Fueling program. In order to meet the needs of the state's fleet, DOA contracts with vendors to supply fuel purchasing cards and to fill bulk fuel tanks owned and operated by the state. The audit included examining DOA's overall management of the fueling program. In addition, since MDT operates a large scale Motor Pool fleet, our audit included controls over fuel cards used during Motor Pool operations.

Follow-up audit findings

The performance audit report included four recommendations to DOA and four recommendations to MDT. Audit recommendations stressed strengthening policies and controls over use of fuel purchasing

cards and bulk tanks by incorporating industry best practices into the existing management controls. The following summarizes information relating to follow-up audit work and the implementation status of the recommendations.

RECOMMENDATION #1

We recommend the Department of Administration establish a statewide fuel card policy that incorporates industry best practices.

Implementation Status – Implemented

A statewide fuel card policy (Montana Operations Manual policy number 1-0795.00) went into effect September 22, 2010. It includes industry best practices such as collecting and comparing odometer readings to ensure fuel consumption is appropriate for each vehicle, monthly supervisory review of each employee's fuel purchasing card use, and a process for resolving billing disputes. Policy also requires separate fuel purchasing cards for nonvehicular uses such as lawnmowers, requiring employees to read and sign a Fuel Card Use agreement, and prohibits use of generic Personal Identification Numbers (PINs).

RECOMMENDATION #2

We recommend the Department of Administration periodically educate state agencies relative to strengthening fuel card use and controls.

Implementation Status – Implemented

DOA facilitated three training sessions for state agencies related to fuel purchasing card use and controls: September 15, 2010; May 25, 2011; and September 19, 2011. DOA plans to continue holding fuel card training sessions twice a year. In addition, DOA has information regarding the statewide fuel card policy and acceptable fuel card use available on its website at all times.

RECOMMENDATION #3

We recommend the Department of Administration establish a policy that addresses purchases of regular and premium grade fuels using fuel cards.

Implementation Status – Implemented

The statewide fuel card policy (Montana Operations Manual policy number 1-0795.00) includes language prohibiting the purchase of premium grade fuel unless specifically required by the vehicle operation manual.

RECOMMENDATION #4

We recommend that the Department of Transportation adopt, clarify, and enforce the Motor Pool agency-leased and daily-use vehicle policies pertaining to fuel card use.

Implementation Status – Implemented

MDT updated both their daily-use and agency-leased policies related to fuel purchasing cards. These updates include requiring the purchase of the least expensive fuel and requiring the actual odometer reading be entered at the time of the fuel transaction. In addition, a \$10 maximum limit for a car wash was added to the agency-leased policy. MDT personnel review monthly reports from the fuel card contractor to monitor adherence to these policies and contact the appropriate person about any questionable fuel card activity.

RECOMMENDATION #5

We recommend the Department of Transportation strengthen fuel purchasing card controls by including at a minimum:

- A. Unique PINs for all Motor Pool vehicle users.**
- B. Aligning current dollar transaction limits to historical spending patterns.**
- C. Adopting additional fuel card controls available through the card vendor.**
- D. Establishing a schedule to regularly review and deactivate unused fuel cards.**

Implementation Status – 5A Partially Implemented

MDT assigned unique PIN numbers to each Motor Pool vehicle, rather than each Motor Pool vehicle user as stated in the recommendation. The fleet management system adequately documents individual day-fleet users but agency-leased vehicles can have multiple users. The lack of individual PINs can make documenting which agency employee used a fuel card at a certain time problematic.

Implementation Status – 5B, 5C, 5D Implemented

MDT created purchasing limits within the fuel card contractor's reporting and tracking system. Limits on fuel purchases are based on the kind of vehicle, capacity of the vehicle's fuel tank, and fuel prices. The system is set up to allow for adjustments to accommodate fuel price fluctuations. MDT also established a limit for nonfuel purchases of \$100. Prior to the audit, this limit was \$250. Staff review the limits on a monthly basis, and adjust limits if needed.

MDT also receives a quarterly report from the fuel card contractor identifying inactive fuel cards. MDT personnel research each card listed on the report, deactivating any without a reasonable explanation for the inactivity.

RECOMMENDATION #6

We recommend the Department of Transportation strengthen controls for proper reconciliation of fuel card purchases.

Implementation Status – Implemented

MDT sends monthly fuel transaction reports to agencies leasing Motor Pool vehicles. Each agency is required to review the transactions and respond to Motor Pool management that the transactions are appropriate or that further review is needed. MDT personnel also review fuel card transaction reports for any anomalies such as diesel purchases or purchases that exceed fuel tank capacity. Staff researches such transactions and fuel card users are contacted for explanation and reimbursement for any unauthorized purchases.

RECOMMENDATION #7

We recommend the Department of Transportation strengthen controls over nonfuel purchases by including at a minimum:

- A. Updating the daily-use vehicle log trip tickets to indicate if the fuel card was used for nonfuel purchases.**
- B. Regularly reviewing fuel card vendor transaction data to identify nonfuel purchases.**
- C. Uploading pertinent, nonfuel purchases on a regular basis into the Equipment Vehicle Maintenance System by vehicle.**

Implementation Status – Implemented

MDT updated their daily-use and the agency-leased packets with reminders, including a conspicuous statement on the cover of the documents, that receipts for nonfuel items must be submitted to the Motor Pool. MDT also includes a reminder about nonfuel receipts with the monthly transaction review report distributed to agencies with leased vehicles. MDT personnel reconcile nonfuel receipts on a monthly basis to ensure policy is followed. Motor Pool users who do not submit receipts for nonfuel receipts are contacted and requested to submit the receipt. MDT staff also reviews all nonfuel transactions for appropriateness. All nonfuel transactions are uploaded into MDT's Equipment Vehicle Maintenance System. MDT personnel indicate this upload usually occurs daily.

Recommendation #8

We recommend the Department of Administration strengthen controls over bulk fuel tank access and use by establishing policy including at a minimum:

- A. Limit after hour access by turning off bulk fuel tank circuit breakers and/or adding a padlock to tank pumps that do not use a fuel card device.**
- B. Install a dispensing meter on bulk fuel tanks.**
- C. The maintaining of records including a transaction log for each bulk fuel tank and a separate log in equipment that is fueled from bulk tanks.**
- D. Check the fuel level of bulk fuel tanks at least monthly to ensure fuel volume matches the transaction log.**
- E. Need for supervisory review and approval of bulk tank transaction logs on a monthly basis and provide the approved log to appropriate agency staff to ensure fuel use is documented in state's fleet management system.**

Implementation Status – Implemented

A statewide bulk fuel policy (Montana Operations Manual policy number 1547) went into effect September 22, 2010 and DOA updated it November 11, 2011. It requires physical security controls for bulk fuel tanks and the establishment of management procedures for monitoring bulk tank use as recommended in the audit.

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PERFORMANCE AUDIT

Montana Public Vehicle Fueling Program

Department of Administration
Department of Transportation

JUNE 2010

10P-02

REPORT SUMMARY

To further limit questionable purchases and improper use, the Department of Administration and the Department of Transportation should establish policies and provide training over the use of more than 8,400 fuel cards and the distribution of fuel.

Context

The Department of Administration (DOA) manages the Montana Public Vehicle Fueling Program, which was created to privatize fleet fueling, simplify accounting fuel transaction procedures, achieve

purchases not related to fuel or vehicle maintenance, fuel cards with limits that are too high, nonutilization of pertinent card controls, active cards not being used, and cards being used with personal vehicles while conducting state business. We also found employees are purchasing premium grade fuel, which leads to higher costs for the state.

**Executive Branch Gasoline
and Diesel Expenditures
and Number of Fuel Cards**

Fiscal Year 2009	Fuel Cards (Sept. 2009)
\$13,292,725	8,436

Source: Compiled by the Legislative Audit Division from SABHRS and fuel card vendor records.

greater control over fuel expenditures, and automatically exempt applicable federal taxes at the point of sale. Fuel cards are used to purchase fuel and vehicle-related maintenance. The state is currently under contract with two fuel card vendors. One vendor is used primarily for agency-owned vehicles and the second vendor is used by the Department of Transportation (MDT) for fuel cards associated with their Equipment Program and Motor Pool vehicles.

Our first objective was to determine if DOA established formal controls over fuel cards and if controls meet industry best practices. We reviewed fuel card practices at a sample of six agencies and found current procedures could be strengthened to align with industry standards. DOA has not created a statewide fuel card policy, which has resulted in a lack of guidance and less than effective controls used by agencies. In addition, we found questionable

Our second objective was to examine controls over fuel purchasing cards used in the MDT's Motor Pool operations. Audit work found improvements in oversight are needed. MDT has created two separate policies for their Motor Pool's agency-leased vehicles and daily-use vehicles. These policies are not up-to-date, are inconsistent, and are not enforced. We also found MDT is not utilizing some vendor-offered card controls that could improve card use and transparency. Finally, the current fuel card transaction and invoice review process conducted by MDT personnel could be improved. Transaction analysis found purchases that appear to be questionable. Furthermore, agencies that lease Motor Pool vehicles do not have access to transaction data to review what their employees are purchasing with the MDT fuel cards.

Our final objective was to determine if DOA established controls over the physical security of bulk fuel tanks and the monitoring of fuel tank transactions. DOA has not created a statewide bulk fuel tank policy. A review of a sample of bulk tanks within five sampled agencies found physical controls and the monitoring of tank use varied both within and among the agencies.

Results

Audit recommendations address the implementation of a statewide fuel card policy and bulk fuel tank policy by DOA, and the improvement of existing MDT fuel card policies and card controls. The following recommendations were made to DOA:

- ▶ Establish statewide fuel card policy that incorporates industry best practices.
- ▶ Periodically educate state agencies relative to fuel card use and controls.
- ▶ Establish policy that addresses purchases of regular and premium grade fuels.
- ▶ Strengthen controls over bulk fuel tank access and use by establishing policy that addresses access, security, records management, and transaction review.

The following recommendations were made to the Department of Transportation:

- ▶ Adopt, clarify, and enforce the Motor Pool agency-leased and daily-use vehicle policies pertaining to fuel card use.
- ▶ Strengthen fuel purchasing card controls by using unique personal identification numbers, adopting additional vendor-offered card controls, and regularly reviewing and deactivating unused cards.
- ▶ Ensure proper reconciliation of fuel card purchases.
- ▶ Strengthen controls over nonfuel purchases by updating the daily-use vehicle log trip tickets, reviewing fuel card vendor transaction data, and uploading nonfuel purchases on the Equipment Vehicle Maintenance System.

Recommendation Concurrence	
Concur	8
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	