Audit Report
Fuel Card Program Management
October 18, 2018

City Auditor's Office
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Purpose and Scope

The purpose of this audit was to determine whether the City has established effective controls over the management of the fuel card program. Auditors reviewed controls in place during FY17 and FY18 and examined detailed transactions processed in September and October 2017.

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

This report is intended for the use of the City Manager's Office, City Council, Engineering & Property Management – Fleet Services, and all City departments. (Effective July 2018, Fleet moved organizationally from Management & Financial Services to the Engineering & Property Management Department.)

Conclusion

Controls adopted as a result of the audit will be adequate to properly manage the City's fuel card program. Prior to the audit, the lack of active management by designated program staff resulted in unresolved billing inaccuracies and overcharges.

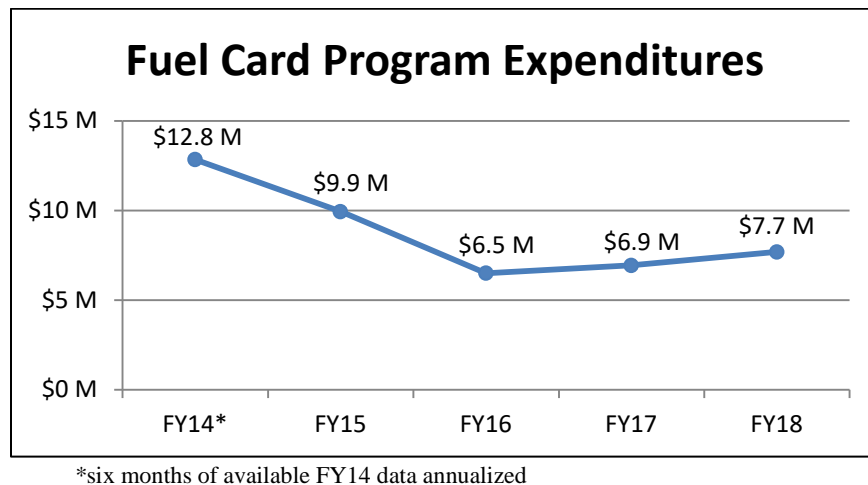## *Summary of Findings and Recommendations*

The following findings are detailed, beginning on page 3:

1. The City has been exposed to potential overcharges due to billing inaccuracies.

   - Fleet Services agrees and will work with Procurement to resolves discrepancies by March 31, 2019.

2. The City should designate E&PM Fleet Services to actively manage the fuel card program.

   - Fleet Services agrees and will implement specific recommendations detailed below by March 31, 2019.

Background

Since November 2011, the City has contracted with Fleetcor Technologies (Fleetcor) for the provision of fuel, via Fuelman cards, at contractually negotiated rates. The original contract period was five years, with the City having the right to two, two-year renewals. The City exercised the first renewal option in 2016.

Employees fuel City vehicles at local gas stations participating in the Fuelman network. Fleetcor bills the City based on the current Oil Price Information Services (OPIS) Rack price plus an agreed upon margin. While the City's total FY18 annual expenditures for fuel and petroleum products exceed $25 million, about $7.7 million of that is paid to Fleetcor for Fuelman usage. Bulk deliveries of fuel to Aviation, Charlotte Area Transit System (CATS), and the Charlotte Fire Department account for more than $17 million. Fleetcor expenditures are summarized by fiscal year below:

Fuel Card Program Expenditures

A line chart showing Fuel Card Program Expenditures by fiscal year. Y-axis from $0 M to $15 M. Data points: FY14* = $12.8 M, FY15 = $9.9 M, FY16 = $6.5 M, FY17 = $6.9 M, FY18 = $7.7 M.

*six months of available FY14 data annualized

The decrease in expenditures from FY14 is largely due to a decrease in gas prices during that time period.

Individual Fleetcor transactions occur either at participating gas stations (88% of dollars spent) or via bulk and delivery orders (12% of dollars spent). As shown in the following table, four departments account for the majority of fuel card purchases.

Fuel Card Purchases by Department
Sept-Oct '17

Other 7%
CDOT 11%
Charlotte Water 17%
CMPD 47%
SWS 18%
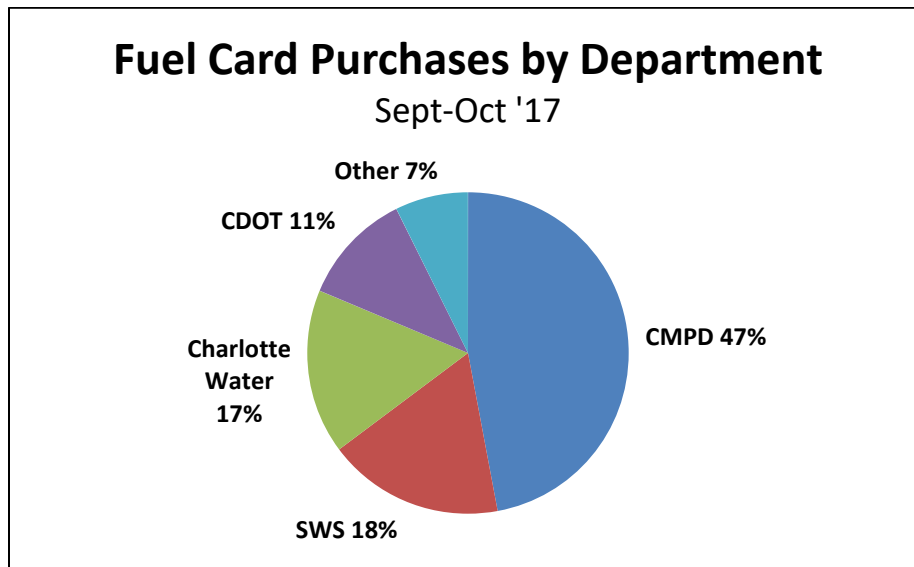
Findings and Recommendations

1. *The City has been exposed to potential overcharges due to billing inaccuracies.*

Auditors obtained a limited amount of data from the contractor. Based upon this information, the following observations were made:

- Billed rates are not being compared to the contractually agreed upon margin plus OPIS rack average prices.

- Based on OPIS rates, Fleetcor overcharged the City for unleaded ethanol fuel at some gas stations in September and October 2017. The unexplained variance of these charges totaled $6,700 (0.65% of the $1,032,306 billed during the period).

- In the transaction data, there is no differentiating product code for ethanol-free versus ethanol fuel. During the two months tested, Fleetcor charged the City an average $2.1569 and $1.8084 for ethanol-free and ethanol fuel, respectively.

- Per Fleetcor, the OPIS billing errors were the result of 11 unleaded fuel sites in the Fleetcor system labeled as "ethanol-free" (2% of sites). Through site visits, auditors determined two of the 11 sites do not offer ethanol-free fuel. For the remaining stations, ethanol-free fuel is offered at a pump separated from the main fueling area.

- For the two not offering ethanol-free fuel, any fuel billed at the higher ethanol-free rate is an error ($810 overcharge during test period). All of the transactions at the remaining sites were billed at the higher ethanol-free rate; however, without the ethanol/ethanol-free product codes being differentiated in the system, it is not possible to determine the exact overcharge (up to $5,890).

- Because Fleetcor billed the City at a higher rate of fuel which was not available, the overall accuracy of its reporting is questionable.

- Transactions at the 11 gas stations coded "ethanol-free" totaled $47,992, or 4.6% of the total billed during September and October 2017.

Accounts Payable (A/P) uses the biweekly invoices submitted by Fleetcor to allocate appropriate charges to City departments. The invoice is uploaded to the City's general ledger system, MUNIS. Fleetcor invoices consist of multiple pages with each department's transactions summarized; however, A/P only uploads the final page. Departments have been approving fuel charges without conducting any substantial reviews (absent the detailed billing pages), because they are unable to tie the invoice amount back to their two-week supporting transaction data received directly from Fleetcor.

Recommendation: Fleet should work with the vendor to investigate and request reimbursement for over-billed amounts.

E&PM – Fleet Services Response: Fleet Services agrees and will work with Procurement to resolves discrepancies by March 31, 2019.

2. ***The City should designate E&PM Fleet Services to actively manage the fuel card program.***

The Fleetcor contract states that there will be collaboration with "the Fleet Management Advisory Team and more than 40 stakeholders." However, the City has not identified an individual or division responsible for the overall system of controls. The contract references a "City Project Manager" defined as a specific City employee representing the best interests of the City. However, individual departments have been administering the program. This approach to administering the contract has been ineffective, resulting in identified overcharges and additional risks of loss.

An active management approach to the City's nearly $8 million annual fuel card expenditures requires the assignment of monitoring citywide fuel purchases to one person, or persons within one division – Fleet Services. Monitoring should include ongoing or separate evaluations and communicating deficiencies within the control system. For the fuel card program, such evaluations could include tests to ensure the following controls are effective:
- vehicle and card authorization
- transaction and usage limits
- fuel type restriction and exception reporting

Specifically, the following control issues need to be addressed:

- Accuracy of employee numbers – Employee numbers recorded in Fleetcor's system did not match City HR data for 1,606 of 2,695 records (60%). Examples of data entered into the 5-digit "Employee ID number" field are cardholder last name,

cardholder initials, ID number plus an unidentified 4-digit number, and a 5-digit non-employee ID number.

- Accuracy of vehicle numbers – Vehicle numbers recorded in the Fleetcor system did not match Fleet Service's asset management system for 323 records (12%). Occasionally, only a portion of characters from the vehicle identification number are stored in the Fleetcor system. For example, "PDA6180" per the Fleet Services asset management system is recorded in the Fleetcor system as "6180."

- "Deny" and "Report" limits – A key control of the fuel card program is the ability to establish transaction limits for each card or vehicle. "Deny limits" prohibit transactions after an established maximum has been reached. "Report limits" establish thresholds that, if exceeded, result in a department exception report. There are no written policies establishing effective limits or administration standards of the 6,284 vehicle-card combinations in the Fleetcor system.

There are four limit categories available for departments to control fuel access. Details of deny limits established by departments are presented below:

Tank Limit – *the maximum gallons of fuel that can be purchased per transaction.*

- ⬥ Departments have only established tank limits for 59 of the 6,284 (1%) card-vehicle combinations

Daily Transaction Limit – *the maximum number of transactions per day.*

- ⬥ The majority of cards (85%) are set at five transactions per day, as detailed below. The remainder need to be evaluated for reasonableness.

Transactions per Day Limit	# of cards	Percent
0 or (blank)	172	2.7%
2-4	586	9.3%
5	5,361	85.3%
6-99,999	55	0.9%
999,999	110	1.8%
Grand Total	6,284	100.0%

Daily Fuel Limit – *the maximum gallons of fuel that can be purchased per day.*

- ⬥ 82% of vehicles have daily limits set between 250 and 999,999 gallons. The highest daily maximum noted during the two months tested was about 55 gallons.

Weekly Fuel Limit – *the maximum gallons of fuel that can be purchased per week.*

- ⬥ 95% of vehicles have weekly limits set at or above 500 gallons. Two vehicles exceeded 500 gallons two total times during the weeks tested.

"Report" limits are similar and exist to alert department administrators to unusual usage. These limits are also at unreasonably high levels.

Recommendation: E&PM Fleet Services should take ownership of the fuel card program and ensure proper controls are in place, including the following:

A. Establish uniform and structured data standards to ensure date accuracy within the Fleetcor system.

B. Ensure that departments establish and monitor effective limit controls for each vehicle.

C. Ensure that departments are reconciling billed amounts to relevant supporting transactions.

D. Periodically match rates billed with OPIS rack averages, to ensure the City pays the contract rates. Investigate any discrepancies.

E&PM – Fleet Services Response: Fleet Services agrees and will implement these four recommendations by March 31, 2019.