


MEMORANDUM

DATE: May 4, 2021

TO: Audit Committee of the School Board of the City of Virginia Beach

FROM: Terrie L. Pyeatt, CPA 
Director, Office of Internal Audit

SUBJECT: Fuel Cards Audit

BACKGROUND

As part of the 2021 Audit Work Plan, the Office of Internal Audit (IA) has performed a Fuel Cards Audit. The Office of Transportation and Fleet Management Services (Transportation) within the Department of School Division Services administers the fuel card program for VBCPS vehicles. There was a transition in Transportation management during this audit. The current Executive Director of Transportation joined VBCPS in December 2020.

VBCPS contracts with PAPCO, Inc. to administer the fuel card (Voyager card) program. The current contract between VBCPS and PAPCO expires in March 2022. VBCPS has 1,181 fuel cards utilized across 27 departments/office/schools/areas in the division with 3,600¹ active fuel card users. Most of the fuel cards are assigned to specific VBCPS vehicles rather than to specific employees. Employees are required to only use the fuel card on its assigned vehicle. See a breakout below of fuel cards by location:

- Office of Transportation – 807 fuel cards
- Office of Maintenance Services – 199 fuel cards
- Various high schools – 50 fuel cards
- Office of Distribution Services – 24 fuel cards
- Office of Custodial Services – 18 fuel cards
- Office of Food Services – 18 fuel cards
- Office of Facilities Services – 16 fuel cards
- Driver's Education – 15 fuel cards
- Office of Safe Schools – 11 fuel cards
- Motor Pool – 10 fuel cards
- School Administration Building – 5 fuel cards

- Department of Technology – 4 fuel cards
- Office of Risk Management – 2 fuel cards
- Office of Student Leadership – 2 fuel cards

There are also a few cards that are kept in the garages and at several high schools. These cards are usually used to fuel vehicles for substitute drivers at the garages or to fuel other gas/diesel operated machines, such as lawnmowers, golf carts, etc. at the schools.

The VBCPS Fuel Card Manual outlines important guidelines and procedures for usage of the fuel card. In addition, Transportation provided Internal Audit general guidelines regarding the program but that are not in writing. In general, the fuel card process should operate as follows:

- VBCPS purchases a vehicle.
- Transportation orders a fuel card for the vehicle and assigns it to the appropriate department/school.
- New drivers sign a Fuel Card Agreement certifying that they will comply with the fuel card procedures. This agreement indicates that the drivers should only purchase appropriate fuel for business purposes, and it names the consequences for violating those procedures. The Fuel Card Manual states that premium or mid-grade fuel should not be purchased.
- The supervisor signs the Fuel Card Agreement agreeing that the department/school is following the fuel card procedures. The supervisor then sends the form to Transportation.
- Transportation notifies PAPCO that the driver's WISE number should be activated in the system so that he/she can purchase fuel using the card.
- Drivers fuel their vehicles at designated gas stations across the city. The driver must enter their WISE number and odometer reading at the pump site for each purchase. The pump will reject the fuel card if the WISE number is not active in PAPCO's system.
- Drivers log each fuel purchase on the vehicle's Fuel Log. Each logged purchase includes the date, time, odometer reading, vehicle number, number of gallons purchased, and signature of the driver.
- Drivers turn in Fuel Logs each month to their supervisor for review.
- Transportation receives a list of PAPCO purchases each month. Transportation reviews the data looking for anomalies. They then sort the data by department/school and sends it to the supervisors for them to review in the form of a reconciliation.
- Supervisors review the reconciliation for their department/school and compare the data to the Fuel Logs received from the drivers. After review, they email the reconciliation back to Transportation indicating that they completed their review and if there were any discrepancies.
- Transportation makes payments to PAPCO throughout the month for fuel card purchases.

AUDIT OBJECTIVES

This audit was performed to:

- Determine if payments to the vendor match the invoices and were properly approved by the signature authority
- Determine if employees follow established fuel card procedures including key processes related to:
 - Fuel Card Agreements
 - Monthly fuel card reconciliation/review process
- Determine if employees used fuel cards for authorized business purposes

AUDIT SCOPE AND METHODOLOGY

Inquiry and examination of documents and data, walk through of controls, as well as interviews, were the methods of reviewing internal controls. The audit period included 35,500¹ fuel card payments made to PAPCO September 1, 2019 – October 31, 2020 by 1,100¹ employees. VBCPS paid \$2 million¹ during the audit period to PAPCO on fuel card payments. These expenditures are less than a regular year because the COVID-19 pandemic reduced the vehicle usage and fueling during our audit period. In FY19, a non-pandemic year, Transportation stated they spent \$3 million¹ on fuel card payments.

To meet the above audit objectives, IA performed the following testwork:

- Interviewed Transportation staff, fuel card users, and monthly reconciliation reviewers across the division;
- Evaluated VBCPS guidelines established for fuel card procedures;
- Obtained a list of all fuel cards, all active fuel card users in the PAPCO system, and all fuel purchases during the audit period;
- Reviewed Fuel Card Agreements for 140 employees who used a fuel card to purchase fuel during the audit period to ensure the agreement was properly completed;
- Reviewed 100% of the PAPCO fuel purchases to ensure the correct type of fuel was purchased;
- Reviewed 100% of the PAPCO fuel purchases to ensure all purchases were made by active employees;
- Compared 100% of the active fuel card users to WISE to ensure that they are active employees;
- Compared the vehicle assignments for each fuel card to ensure that only one fuel card was assigned to each vehicle;
- Attempted to obtain fuel using a WISE number at the gas pump that was not activated in PAPCO's system;
- Reviewed PAPCO payments to ensure the correct amount was paid, price per gallon appeared reasonable, payment was made timely, and proper approval was given;

- Compared WISE records to PAPCO fuel purchases for employees receiving a travel allowance to ensure they did not use a fuel card for local travel;
- Compared WISE records to PAPCO fuel purchases for employees that received a travel reimbursement to ensure they did not use a fuel card for the reimbursed travel; and
- Reviewed the monthly reconciliation process to determine if the supervisors were conducting a review of the Fuel Logs and the PAPCO fuel purchases.

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.

CONCLUSION

The results of the audit were discussed with management. We thank management and staff of the Office of Transportation and Fleet Management Services for their cooperation throughout the audit. A summary of the audit results, audit recommendations, as well as responses from management, are included in this report. These recommendations are intended to further strengthen compliance with policies and procedures, as well as to strengthen internal controls and offer process improvements in administering the fuel card program.

In our opinion, the results of the audit indicate that:

- The payments to PAPCO, Inc. matched the invoices and were properly approved by the signature authority.
- Employees were generally not following established fuel card procedures, including the key processes related to Fuel Card Agreements and the monthly fuel card reconciliation/review process.
- Some employees were using the fuel cards to purchase fuel that was not consistent with the assigned vehicle. Internal Audit found that the review process of the fuel card program was insufficient, making it difficult, if not impossible, to determine if the unauthorized purchases were accidental or intentional.

cc: James Lash, Executive Director, Office of Transportation and Fleet Management Services
Jack Freeman, Chief Operations Officer

AUDIT RESULTS AND MANAGEMENT'S RESPONSES

Finding No. 1: Monthly Fuel Reconciliation Review

The monthly fuel reconciliation review process is not adequately functioning. Examples include:

- Supervisors are not reviewing and/or returning the monthly fuel reconciliation reports to Transportation on a consistent basis.
- Transportation is not using a complete list of the correct email recipients for the fuel reconciliation reports – three departments/schools were omitted from the email distribution list.
- There is no comparison of the data sent to the supervisors to review and the data supporting the invoices that are paid.

According to the VBCPS Fuel Card Manual, Transportation should send a reconciliation of the monthly fuel transactions to the departments/schools that have fuel cards. The supervisors should review and verify the fuel purchases of their assigned drivers.

Some reviewers/supervisors outside of Transportation stated they do not review the reconciliation because they have not received training or guidance from Transportation. Multiple Transportation area supervisors (who possess many of the fuel cards) stated that they do have a review process in place for the monthly reconciliations, but they do not return the reviewed reconciliation forms to the designated person each month.

The Transportation employee assigned to send and receive the reconciliation reviews was not following up with the supervisors that did not return the reviewed reconciliations. She stated that she had not been told to follow up on any missing responses. She was unaware that the email distribution list was incomplete until Internal Audit brought it to her attention.

Payments to PAPCO are made frequently throughout the month, while the review process occurs only once a month. These two datasets should be compared monthly to ensure what is being reviewed is what is being paid. This is not a part of their current procedures.

Inappropriate or personal usage of a fuel card will go undetected if the fuel usage is not reviewed for accuracy. Comparing the reviewed data to the invoice data will assist in ensuring the proper payments are made to the vendor.

Recommendations:

We recommend Transportation create a fuel card training program for the monthly fuel reconciliation review and train all departments/schools that use fuel cards on the proper procedures. We also recommend Transportation institute best practices when updating the monthly fuel reconciliation procedures to include:

- Transportation should consider requiring a supervisor-level employee to review the monthly fuel activity in each department/school as they are the person who is privy to fuel card activity in their area and whether the fuel usage appears

AUDIT RESULTS AND MANAGEMENT'S RESPONSES, CONTINUED

reasonable. Currently, the approver/reviewer ranges from an office associate to a director or the fuel card user themselves. Fuel card users should not be reviewing their own fuel usage.

- Transportation should follow up on the missing monthly review reports in a timely manner.
- Transportation should notify PAPCO of the correct department when ordering a new fuel card as this simplifies the monthly review process.
- Transportation should ensure the monthly reconciliation reports match the data supporting the PAPCO invoices.

Management's Response:

Management concurs. Transportation will refine the guidelines for the fuel card program and communicate this information to all departments/schools accordingly. Transportation will also institute best practices when updating the monthly fuel reconciliation procedures. These guidelines will be developed and communicated by October 1, 2021.

Finding No. 2: Active Fuel Card Users No Longer VBCPS Employee

Of the 3,600¹ active fuel cards users, 1,400¹ of them are no longer active VBCPS employees. Once an employee leaves VBCPS, Transportation should terminate their fuel card access through PAPCO so they can no longer use a fuel card at the gas pump. Transportation stated that they do terminate access for Transportation employees, but they usually do not receive notification from other departments/schools when an employee leaves VBCPS. This results in terminated employees remaining as an active fuel card user. If former employees' access are not removed timely, it could lead to misuse of the fuel cards.

Recommendations:

We recommend Transportation implement a process to periodically review the PAPCO active fuel card user list to ensure employees who have left VBCPS are subsequently removed from the PAPCO active user list.

Management's Response:

Management concurs. Transportation will create a monitoring process to ensure terminated VBCPS employees are removed as needed from the active user list. This process will be developed and implemented by October 1, 2021.

Finding No. 3: Inappropriate Fuel Purchases

Employees purchased the incorrect fuel type in 146 of 35,500¹ instances during the audit period. See details below:

- 28 fuel transactions indicate unleaded fuel was purchased when the assigned vehicle requires diesel fuel

AUDIT RESULTS AND MANAGEMENT'S RESPONSES, CONTINUED

- 16 fuel transactions indicate diesel fuel was purchased when the vehicle requires unleaded fuel
- 39 fuel transactions indicate mid-grade fuel was purchased
 - 20 of these transactions were made by one employee
- 63 fuel transactions indicate premium fuel was purchased
 - 24 of these transactions were made by one employee and another 12 were made by another individual employee

According to the VBCPS Fuel Card Manual, only regular unleaded fuel or low sulfur diesel is to be used in vehicles, the type of vehicle will determine the fuel type. In addition, the use of the fuel card for anything other than fuel for a VBCPS vehicle is prohibited. As described in Finding #1, the review process for fuel card purchases is not functioning properly which allows the inappropriate fuel purchases to go unnoticed. Although the identified inappropriate fuel charges are low in comparison to the total number of transactions, the lack of supervisory review could allow many other irregularities to occur that were not noted during this audit, including frequent fill-ups by employees indicating personal use of the card.

Recommendations:

We recommend Transportation remind fuel card users that personal use of the fuel card is prohibited and also reiterate the importance of purchasing the correct type of fuel for their vehicle. We also recommend instituting a better review process for the fuel card purchases. We recommend Transportation incorporate a simple data mining review to check for the wrong fuel types.

Management's Response:

Management concurs. Transportation will reiterate to all fuel card users the importance of purchasing the correct type of fuel for their vehicle and that personal use of a fuel card is prohibited. We will also improve the review process and communicate it to the supervisors by October 1, 2021.

Finding No. 4: Fuel Card Agreement Forms

IA selected a sample of 140 employee Fuel Card Agreement Forms from the 1,100¹ employees that obtained fuel during the audit period. See discrepancies noted below:

- 74 of the 140 selected forms could not be located;
- 4 of the 66 forms located were completed and signed by the employee, but not signed by their supervisor; and
- 8 of the 66 forms located show a supervisor pre-signed the form. The supervisor's signature is dated July 2011; however, the employees' signatures are dated between 2012 – 2017.

According to the VBCPS Fuel Card Manual, a Fuel Card Agreement Form must be completed and signed by the driver and their supervisor. According to Transportation,

AUDIT RESULTS AND MANAGEMENT'S RESPONSES, CONTINUED

some forms were kept in a binder in one of the garages, but when the garage moved to a different location, the binder could not be found. Transportation also activates employees after receiving an email request with an employee's information to gain access to a fuel card; they will contact PAPCO to add the employee without obtaining the signed agreement form. The signature of the employee on the form indicates that the employee is aware of the guidelines of the program and the consequences of violating those guidelines. The supervisors' signature indicates that he/she is taking responsibility for ensuring the department/school is following all procedures related to the fuel card program. A supervisor's signature also authorizes Transportation to activate the employee with PAPCO so that he/she can purchase fuel. Activation without a form could allow an employee to obtain fuel when it is not appropriate for their position.

Recommendations:

We recommend Transportation revise their procedures to ensure Fuel Card Agreement Forms are properly completed by the employee and supervisor prior to contacting PAPCO to activate the employee. We also recommend that Transportation obtain Fuel Card Agreement forms for all active fuel card users that are currently missing.

Management's Response:

Management concurs. Transportation will revise their procedures accordingly and will obtain all missing forms by October 1, 2021.

¹ Amounts are approximate