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Audits and Government Efficiency Committee
Honorable Dennis P. Zine
Chair
c/o Office of the City Clerk
City Hall, Room 395
Los Angeles, CA 90012

Attention: Adam Lid, Legislative Assistant

AUDIT OF CONTROLS OVER THE CITY'S FUEL USE

SUMMARY

On March 29, 2012, the Controller's Office released their audit report on Controls Over Fuel Usage. Subsequently, on April 3, 2012, a motion (C.F. 10-2380) was passed in Council requesting the General Services Department (GSD) to report back to the Audits and Government Efficiency (AGE) Committee on the audit report relative to the following:

1. a plan to strictly oversee fuel use monitoring;
2. implementing fuel card controls;
3. maintaining logs of vehicle use;
4. requiring additional user information to dispense fuel;
5. the creation of a "Fuel Task Force" with appropriate departments to develop guidelines for fuel use; and
6. a review of the Voyager Card program and the accessibility of 'Master Cards' at each fuel use station, and recommend improvements.

GSD substantially agrees with the findings as presented since the audit recommends better documentation and monitoring by the user departments which will ultimately strengthen and improve oversight of fuel use. GSD has been proactive in implementing the Audit recommendations, with some of the recommendations having already been implemented. While GSD has no authority over other user departments' fleet operations

and fuel usage, GSD remains committed to providing the resources to the user departments in their efforts to control and monitor their fuel usage.

BACKGROUND

GSD is responsible for maintaining the Fuel Automation System (System) that provides automated fuel authorization and centralized monitoring of fuel. GSD purchased the System from E.J. Ward in 1999. The System is accessed thorough the use of either a fuel card or a transmitter on the vehicle that authorizes the fuel pumps to pump fuel. The system handles approximately 1 million fuel transactions annually. Fuel transaction information is available through the Fuel Automation Center where Departments have the capability of generating fuel reports to review and follow-up on unusual instances and to look for opportunities to reduce fuel usage.

Many of the errors cited in the report occurred as result of user inputs caused by users overriding the System through keypad entry or other means, which were not standard to the original programming. Even taking into account all the errors reported in the audit, these errors account for less than 1 percent of all yearly transactions, taking into consideration that the City's average yearly transactions are 1 million.

BYPASS, MASTER CARD, AND KEYPAD ENTRY DISPENSING METHODS

Specific methods which accounted for $7 million in fuel have been cited in the report by which fuel is dispensed without fully recording the transaction. These methods consisted of the bypass ($1.2 million), keypad entry ($3.9 million) and master card ($2 million) dispensing methods. However, $5.9 million out $7 million cost of fuel included vehicle numbers, indicating where the fuel was dispensed. Even with the bypass method, 79% (694,263 gals) of the total gallons (877,015 gals) dispensed under bypass was from Sanitation. Out of the total gallons Sanitation dispensed under bypass, 70% (482,621 gals) was Liquefied Natural Gas (LNG) fuel.

LNG is exclusively used by Sanitation for its refuse collection fleet. LNG is cryogenic fuel (-270°F) that must be dispensed using specially trained fueling staff and is for a specific type of vehicle. Similarly, 96,768 gallons dispensed under bypass was Compressed Natural Gas (CNG) fuel. Combining LNG and CNG dispensed under bypass account for 66% (579,389 gals) of the total gallons dispensed under bypass (877,015 gals). Due to the specialized nature of these fuels, it can be deduced that the fuel is dispensed to City vehicles and its use cannot be assumed to be unauthorized.

In addition, when GSD assigns and issues Master card and Bypass keys, user departments must sign acknowledging receipt of the items and proper usage and security. At this point, user departments are responsible for their proper use and security of these items.

In terms of authorized use, bypass and master card methods require a user department employee at a supervisory capacity to authorize fueling under these methods. The Keypad entry method is limited to only LAPD vehicles and can only be used at LAPD fueling stations which are typically secured.

The audit does recommend that user departments monitor and document when these dispensing methods are used to provide assurance of appropriate management oversight, which GSD is in total agreement.

FUEL TASK FORCE AND FUEL USE MONITORING

The audit recommends that GSD convene regular meetings with departmental representatives. GSD already convenes biweekly meetings with departmental representatives and the Fuel Automation contractor to discuss these fuel issues. Auditors were aware of these meetings and have acknowledged that these meetings met the intent of the recommendation.

General guidelines for controlling and monitoring fuel have already been developed and are disseminated periodically through a memorandum to the Departments. The most recent memorandum dated March 6, 2012 highlighted the guidelines and included the announcement of the biweekly meetings. To underscore the announcement of the biweekly meetings, another memorandum dated April 27, 2012, was sent to the user departments to specifically announce the biweekly meetings in response to the audit recommendation. In order to provide better accessibility to these guidelines, GSD will post all memorandums associated with controlling and monitoring fuel in its website.

In addition to convening regular meetings, GSD has been proactive with the development of automated Bypass, Keypad Entry, and Master card reports which are sent automatically via email to the user departments to facilitate their monitoring. In addition to the reports provided to the user departments by GSD, the user departments also have access to the Fuel Automation Report Center. With the Fuel Automation Report Center, user departments can check fuel usage information for their vehicles at any time.

FUEL CARD CONTROLS

User departments are responsible for the proper usage and security of their fuel cards. The audit recommends user departments conduct regular department-wide physical inventories of fuel cards and to reconcile the inventories to GSD's records. GSD will provide listings of cards assigned when requested by the user departments. GSD remains committed to providing the resources to the departments in their efforts to control and monitor their fuel usage.

MAINTAINING LOGS OF VEHICLE USE

The audit recommends departments established policies and procedures for checking-out vehicles and maintaining trip logs. The recommendation is not directed towards GSD.

VEHICLE KEY FUELING INPUT

The audit recommends LAPD and GSD work with the fuel system vendor to restrict the use of the keypad function to emergency vehicles and by requiring employee/badge numbers to be entered when fueling these vehicles.

The fuel system vendor has already provided a price quotation to modify the system to accommodate this restriction on the keypad function. LAPD is currently evaluating the quotation.

VOYAGER CARD PROGRAM

The audit recommends GSD provide City departments with Voyager statements or electronic files of Voyager Card transactions for their review, along with the directive and suggested guidelines for departmental management to monitor purchase transactions to ensure appropriate use. GSD recently began providing automated Voyager Card transaction reports to Departments on a monthly basis. Each report contains an automated message that includes guidelines on appropriate use and a link to the GSD intranet site where City fuel site locations, hours of operations and maps can be accessed.

CONCLUSION

GSD remains committed to providing the resources to the user departments in their efforts to control and monitor their fuel usage. With the Controller's audit recommending user departments to better document and monitor their fuel usage, the departments will now utilize the resources that GSD provides to monitor fuel usage. This will overall strengthen and improve oversight of fuel use Citywide.

RECOMMENDATIONS

1. Approve recommendations made in the Controller's Audit Report of the City's Fuel Usage.

2. Instruct Departments to implement the recommendations cited in Controller's Audit Report of the City's Fuel Usage.

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