

COMMUNICATION

File No. 12-0473

TO: COUNCIL OF THE CITY OF LOS ANGELES

FROM: COUNCILMEMBER DENNIS P. ZINE, CHAIR
AUDITS AND GOVERNMENTAL EFFICIENCY COMMITTEE

COMMUNICATION FROM CHAIR, AUDITS AND GOVERNMENTAL EFFICIENCY COMMITTEE relative to an audit of the controls over the City's fuel use.

Recommendation for Council action:

NOTE and FILE the following reports relative to the Controller's audit of the controls over the City's fuel use:

- a. March 29, 2011 Controller audit report.
- b. April 30, 2012 and May 1, 2012 Department of General Services (GSD) reports.
- c. May 3, 2012 Los Angeles Police Department (LAPD) report.
- d. May 4, 2012 Los Angeles Housing Department (LAHD) report.
- e. May 4, 2012 Los Angeles Fire Department (LAFD) report.
- f. May 4, 2012 Los Angeles Convention Center (LACC) report.

Fiscal Impact Statement Submitted: Not applicable.

Community Impact Statement Submitted: No

SUMMARY

On May 8, 2012, the Committee Chair considered a March 29, 2011 Controller audit report, April 30, 2012 and May 1, 2012 GSD reports, May 3, 2012 LAPD report, May 4, 2012 LAHD report, May 4, LAFD report, and May 4, 2012 LACC reports relative to an audit of the controls over the City's fuel use. According to the Controller, the audit found that, in general, departments do not monitor their fuel transactions sufficiently to identify potential abuses or problems and, as a result, the City's taxpayers cannot be assured that fuel is appropriately used. Abuse of the City's fuel supply is unacceptable at any time, and preventing abuse is necessary now more than ever given the high cost of fuel.

The City purchases about 13.8 million gallons of fuel annually at a cost of approximately \$28.6 million. With this much fuel at risk, the City needs to maintain strong controls to ensure that every last gallon of fuel is accounted for and that City management oversees and controls its use. Additionally, the audit reveals that procedures are not in place to monitor the distribution of fuel. Over \$7 million spent Citywide on fuel was dispensed through three methods that expose the City to high risk Bypass transactions (\$1.2 million): when a locked panel is removed and an electronic switch is deactivated from a fuel control terminal; Keypad entry transactions (\$3.9 million): when a City employee' using an LAPD fuel site uses the override button and is only

required to input a vehicle number to obtain fuel; and master card transactions (\$2 million): when a site supervisor uses a general 'master card' to override the system which should only be used when a vehicle's fuel card or vehicle information transmitter is malfunctioning or missing.

Due to a lack of monitoring, most departments were unaware of these high risk transactions. Additionally, the audit found approximately 150,000 transactions that recorded negative mileage or greater than 2,000 miles since the vehicle's last fueling. These are also considered high-risk transactions, and with appropriate monitoring, departments could have questioned whether these were caused by system errors, unintentional manual override that need to be corrected through staff training, or reflected as intentional misstatements by staff, indicating inappropriate fuel use.

Beginning in 1999, the City has paid a vendor in excess of \$12 million to implement and maintain a fuel automation system. However, departments are not using the system's capabilities to monitor fuel usage; if they had, they could have identified the extent of high risk transactions, as well as data inaccuracies being generated by the system. To better account for fuel usage, it is recommend that the City establish a Fuel Task Force in the GSD to develop general guidelines for controlling and monitoring fuel use; that employee access to bypass the information tracking system be restricted; that fuel logs be maintained at each fuel site to record fuel dispensed using bypass modes and master cards; that regular department-wide physical inventories of fuel cards be conducted to limit fraudulent expenditures; and that logs to record fuel dispensed from above ground tanks be maintained since they are not currently recorded.

After further consideration and having provided an opportunity for public comment, the Committee Chair moved to note and file the assorted reports submitted in the matter as detailed in the above recommendation. This matter is now forwarded to Council for its consideration

Respectfully submitted,

COUNCILMEMBER DENNIS P. ZINE, CHAIR
AUDITS AND GOVERNMENTAL EFFICIENCY COMMITTEE

<u>MEMBER</u>	<u>VOTE</u>
ZINE:	YES
LABONGE:	ABSENT
REYES:	ABSENT

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Not Official Until Council Acts