



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Report
Office of General Auditor

Internal Audit Report for March 2022

Summary

One report was issued during the month:

Fuel Management Audit Report

Discussion Section

This report highlights the significant activities of the Internal Audit Department during March 2022. In addition to presenting background information and the opinion expressed in the audit report, a discussion of findings noted during the examination is also provided.

Fuel Management

The Audit Department has completed a review of the accounting and administrative controls over Fuel Management as of October 31, 2021.

Scope

Our review consisted of evaluating internal controls over bulk fuel suppliers' bid and selection process and reviewing the purchase, delivery, usage, and reporting of fuel supplies. In addition, we tested the validity and propriety of invoice payments, including Fleet Card transactions, for compliance with contract terms and that the amounts billed were accurate and adequately supported. Finally, we performed analytical procedures designed to evaluate fueling activity.

Background

The Fleet Services Unit (Fleet) of the Operations Support Services Section within the Water Systems Operations Group (WSO) utilizes the Ward Fuel Management System (FMS), implemented in 2007/2008, to control fuel dispensing, manage fuel inventory, and meet regulatory requirements. In April 2021, the board approved an agreement with Syntech to implement a new FuelMaster Fuel Management System (FuelMaster). While FuelMaster may improve the District's fuel management capabilities, it will not in and of itself address the control deficiencies that underlie our opinion. Fleet management has initiated corrective action in response to our concerns.

Fleet manages diesel fuel, gasoline, jet fuel, CNG, and propane supplies. Metropolitan uses diesel fuel in vehicles and emergency backup generators and gasoline in vehicles and equipment (e.g., air compressors, etc.) The District dispenses fuel at nine fleet service centers and four other facilities at treatment plants, pumping plants, and the Sunset garage. Metropolitan also uses jet fuel for

aircraft, propane for heating purposes, and CNG in equipment (forklifts, etc.); however, it does not operate dispensing facilities for these products.

The fleet staff prepares monthly Perpetual Fuel Inventory Reports (PFIR) to summarize deliveries, usage, and inventory balances. Accounting Operations, part of the Controller Section in the Office of the Chief Financial Officer, uses the PFIR to record adjustments to the fuel inventory account, compute diesel fuel tax, and allocate fuel usage costs to field locations.

Fuel consumption for the past three years:

Account #	Account Name	FYE 2018/2019	FYE 2019/2020	FYE 2020/2021	Total
4300021	Gasoline (unleaded)	\$2,096,700	\$2,018,100	\$1,578,482	\$5,693,282
4300022	Diesel	407,500	380,500	255,221	1,043,221
4300023	Propane	108,400	38,100	60,901	207,401
					\$6,943,904

Opinion

In our opinion, the accounting and administrative procedures over Fuel Management provided a less than satisfactory internal control structure between July 2017 and October 2021. This opinion results from control design and operation deficiencies, non-compliance with procedures, and ineffective monitoring. Specifically, we noted flaws in practices designed to prevent and monitor unauthorized dispensing of fuel, including failure to identify and correct equipment malfunctions. Further, management did not take action to resolve known control deficiencies. Taken as a whole, we cannot attest to the safeguarding of fuel assets and proper recording of fuel purchases and uses.

Comments and Recommendations

FUEL DISPENSING

Safeguarding of assets is those policies and processes that provide reasonable assurance in the prevention or timely detection of unauthorized acquisition, use, or disposition of the District's assets. Prudent fuel management practices optimize fuel usage, track data on fuel usage for individual assets and ensure regulatory compliance. Moreover, physical access controls should limit fuel dispensing to authorized users, vehicles, and equipment. Combined, these preventative and detective controls ensure the safeguarding of fuel supply assets.

Metropolitan pumps fuel at thirteen facilities using the Fuel Management System (FMS) to control inventory and track fuel dispensing. Fleet Management installed telematics on its fuel pumps and approximately 75% of its vehicles and fuel-burning equipment. During fueling, telematics capture the vehicle or equipment identity, the odometer reading, if applicable, and the number of gallons pumped and records this information automatically in FMS. Pumping fuel into vehicles or equipment not fitted with telematics requires an authorized operator to swipe their identification badge and enter the information manually.

Audit testing revealed deficiencies in control design, operation, and circumvention of established procedures.

Control Design

- For vehicles and equipment not fitted with telematics, pumps should not dispense fuel unless authorized employees swipe their identification badge and key in the equipment bar code, license number or assigned vehicle number, and odometer reading, as appropriate. There is no procedure to ensure that employees key in the correct vehicle or equipment information.

For example, Securitas provides guard services for Metropolitan; their contract authorizes them to fuel 17 vehicles at Metropolitan facilities.

- None of the Securitas vehicles are equipped with telematics.
- Securitas contract terms allow for 17 vehicles to refuel at Metropolitan facilities. However, the FMS system identifies 39 vehicles as being authorized Securitas vehicles. Further review revealed that 15 of these were Metropolitan assets used by employees. Of the remaining 24, five showed no fueling activity during the period of our audit.
- Securitas informed us that one of the vehicles in the FMS does not belong to them. Fleet personnel told us they received an email from Securitas to authorize fueling the vehicle; however, they could not produce it. We were unable to determine who owned the vehicle.
- FMS records report that refueling of four vehicles (\$14,212) occurred after Securitas had notified Metropolitan of their sale. Further investigation revealed that Securitas employees used information from the sold vehicles to pump fuel into new ones. We were unable to verify the identity of the vehicles receiving this fuel.

Controls Not Operating as Intended

- Fleet management informed us pumps should stop dispensing fuel after removing the nozzle from the tank when telematics is engaged. We noted 71 units where fuel pumped exceeded the tank capacity of the receiving vehicle or equipment by 1,378 gallons. Of these transactions, 211 involved telematics and 105 involved employee card fueling. Employees told us the discrepancies occurred because they fueled nursing tanks, recorded the wrong asset, had the incorrect tank capacity recorded in the system, or fueled more than one asset on a single transaction.
- Pumps should not dispense fuel for vehicles and equipment fitted with telematics unless the odometer reading is higher than recorded at the last fueling. We tested FMS fueling data for 945 assets from July 1, 2018, to October 30, 2020. We noted 353 with odometer readings lower than that of the last fueling. This outcome should not be possible with the telematics equipment.

- Additionally, our comparison of the odometers of 64 vehicles to the odometer readings in FMS noted five (7.8%) had discrepancies.

Circumvented Controls

- Operators can place fuel pumps in Bypass Mode, which permits dispensing fuel without identifying the individual who operates the pump or the vehicle or equipment fueled. Between July 2017 and March 2021, pumps operated in Bypass Mode at all thirteen Metropolitan facilities for varying lengths of time, resulting in untracked fuel dispensing totaling \$13,063 (5,410 gallons). At Gene Camp, the diesel pump remained in Bypass Mode continuously for eleven months, dispensing 4,010 untracked gallons. The Fleet Manager deactivated Bypass Mode after Internal Audit identified the situation.
- “Jerry Cans” are five-gallon, portable containers used for transporting fuel. Management does not monitor fuel pumped into “Jerry Cans.” Additionally, since June 2019, Fleet recorded all fuel pumped into “Jerry Cans” as being dispensed from Weymouth, a default location. Consequently, Fleet cannot determine where or how “Jerry Can” fuel is used. Since June 2019, “Jerry Cans” accounted for 5,833 gallons.

Failure to ensure that only authorized vehicles and equipment receive fuel could result in erroneous reporting and undetected, fraudulent transactions.

We recommend that Fleet management develop, maintain and comply with written procedures to ensure that only authorized vehicles and equipment receive fuel. These procedures should ensure:

- Telematics is installed on all vehicles and equipment
- Data recorded in the FMS is complete, accurate, and appropriately supported
- Management reviews all fueling transactions regularly to identify discrepancies and take timely corrective action.
- Pumps placed in Bypass mode are properly authorized, and activity is tracked and periodically reviewed for propriety.

TELEMATICS COMPONENT MAINTENANCE

Fleet implemented the Ward Fueling Management System (FMS) in 2007/2008 to control fuel dispensing, manage fuel inventory, and meet regulatory requirements. In addition, telematics was installed on fuel pumps and approximately 75% of Metropolitan vehicles and fuel-burning equipment to provide usage and monitoring capabilities. When utilized as intended, these elements provide control over the purchase, use, and monitoring of fuel supplies and usage.

Our review of FMS data of refueling transactions for 1,202 assets from July 1, 2018, to October 30, 2020, revealed:

- Odometer readings for 353 units were descending instead of ascending
- The “last odometer or meter hour reading” was zero for 49 units
- The “current odometer or meter hour reading” was zero for six units
- Mileage or meter hour reading since the last fueling was zero for 533 units

We also noted:

- Management cannot determine if fuel was dispensed to the vehicle recorded in FMS for vehicles without telematics. Also, FMS does not distinguish between automatic and manual fueling when transactions are initiated by swiping an MWD badge.
- Metropolitan assigns a vehicle to California Fish and Game for monitoring Diamond Valley Lake. Our testing revealed the telematics in this vehicle had not worked since January 3, 2018. Fleet Management replaced it after we brought it to their attention in February 2021.

Failure to accurately track fueling activities could result in financial loss and create opportunities for fraud. Malfunctioning equipment makes the data inaccurate; consequently, Fleet Management is unable to perform reliable data analysis.

We recommend that Fleet management establish and implement written policies and procedures to promptly identify and repair malfunctioning devices.

FUEL INVENTORY PROCEDURES

Periodic comparison of physical inventory to accounting records is essential to track fuel usage, identify leakage, manage purchases, and ensure accurate financial reporting.

Fleet management uses a Perpetual Fuel Inventory (PFI) worksheet to track fuel inventory for each tank daily. Fleet relies on daily readings from tank level sensors to determine the amount of fuel on hand. Additionally, Fleet personnel must physically verify tank levels using a measurement stick before and after each fuel delivery.

During our audit, we noted the following:

- Fleet personnel only check tank level sensors when significant inventory variances occur (over 250 gallons) or when field personnel identify issues. We analyzed inventory variances by storage tank between June 2020 and December 2020 and noted three tanks with greater than 100-gallon variances in five out of six months. Furthermore, 76% of 100-gallon

variances were related to five tanks. Service records indicate only one tank service call during this time.

- Fleet personnel did not document required physical measurement before and after fuel delivery in nine of 63 receiving logs we examined.
- We conducted a physical inventory on one unleaded gasoline tank in La Verne on May 5, 2021. The stick measurement agreed with the tank level sensor. However, La Verne did not have usable water paste on hand. Consequently, we could not verify that the tank level sensor accurately detected water.

Accurate fuel level measurement is affected by various factors, including temperature and the presence of water. Storage tanks can accumulate water when it drains into the tank after a rainstorm or a contaminated fuel delivery. Undetected water can contaminate fuel, degrade components, promote corrosion, and result in erroneous inventory readings. The latter condition could lead to inaccurate reporting.

We recommend that Fleet management take physical measurements using water paste before and after fuel deliveries; the procedure takes only a few minutes. We also recommend stick measurement of all tanks at least monthly. Fleet personnel should resolve significant variances with tank level sensors promptly.

INVOICE REVIEW AND APPROVAL

Proper invoice review and approval ensures accurate billings for goods and services, the propriety of transactions, compliance with contractual terms and conditions, and prompt error correction. Fleet procedures require personnel to conduct and record a physical inventory of fuel tanks before and after delivery in the Inventory Report. Both the delivery driver and the receiver are required to sign the delivery ticket. Business Support Services staff is required to compare unit prices on supplier invoices against the Oil Price Information Service (OPIS) index report to determine the reasonableness of fuel charges before payment.

Our testing of 63 fuel invoices from July 1, 2017, to October 30, 2020, revealed:

- There was no evidence of a physical inventory before and after delivery for 15 invoices.
- The Inventory Report did not agree to the Regulated Substance Measurements Receiving Log (Log) for 31 invoices. The Log exceeded the Inventory Report by as much as 294 gallons and fell short by as much as 84 gallons.
- One invoice included the wrong date for the OPIS price; thus, we could not verify its accuracy. Management relies on the fuel supplier to provide the correct OPIS rate. Fleet management has an annual subscription to OPIS, but the license resides with a retired District employee.

- The receiver's signature was missing on two of 30 Pinnacle delivery tickets; there was no delivery ticket for a third.

Failure to verify fuel deliveries and invoice accuracy properly could result in financial loss due to fraudulent, erroneous, or unauthorized transactions.

We recommend that Fleet management adheres to fuel receiving and invoice processing policies and procedures. We also recommend that management reassign the OPIS subscription and use it to verify invoice prices.

FLEET CARD TRANSACTIONS

Metropolitan issues Fleet Cards to full-time employees who fuel District vehicles, aircraft, or equipment when Metropolitan fuel service is unavailable. Fleet cardholders are required to retain receipts, complete the Fleet Card Purchase Log, and obtain management approval on these transactions.

We tested 67 Fleet Card transactions from January 1, 2018, to October 20, 2020, and noted the following:

- Thirty showed no evidence of manager approval
- Two were not recorded in the Fleet Card Purchase Log and had no receipt
- Four did not include a transaction purpose
- Six jet fuel expenditures totaling \$5,596 were incorrectly posted to the propane account.
- Four aircraft fueling expenditures totaling \$1,572, and an oil change, \$91, were incorrectly posted to the gasoline/propane accounts.

Failure to perform proper review and approval of Fleet card transactions could result in financial loss to Metropolitan due to fraudulent, erroneous, or unauthorized transactions.

We recommend Fleet management enforce existing procedures for Fleet Card transactions.

MISRECORDED AND UNDER-UTILIZED ASSETS

A key component of effective risk management and internal control is to ensure that resources are acquired economically, used efficiently, and adequately protected. Asset tracking is an essential component of this effort and is critical to accurate financial accounting and reporting. Asset purchases and retirements should be promptly recorded as prescribed in the MWD Operating and Expensed Equipment Manual, dated October 2018.

During our testing of fueling activity, we noted assets that were underutilized and unrecorded.

- The District purchased a new Chevy Colorado truck in April 2019 for the Engineering Services Group. In March 2021, the odometer showed only 39 miles. The vehicle, fitted with telematics and GPS, was towed to the maintenance garage four times due to a dead battery resulting from inactivity; after the fourth tow, staff replaced the battery. After an Internal Audit inquiry, Engineering Services assigned the truck to an employee, who began to use it.
- The District purchased a new Dodge Sedan on December 30, 2014, as a secondary pool car at Skinner. In May of 2021, the odometer showed only 10,603 miles.
- Asset custodians told us that a GMC Truck, a generator, and a reciprocating air compressor, were salvaged. Further review revealed that Fleet did not know the location of these items, and the Investment Recovery Team, responsible for salvaged asset disposal, had no record of receiving them. Following our inquiry, Fleet located the GMC truck parked in the salvage yard and found the generator at Lake Mathews. The reciprocating air compressor remains missing, and there is no evidence of its salvage.

Failure to identify underutilized assets is inefficient. Failure to accurately record the status of assets could result in inaccurate financial reporting.

We recommend that management develop written procedures to evaluate the efficient use of resources and accurately record the status of all assets.

COMPRESSED NATURAL GAS (CNG) AND DIESEL FUEL TAX CREDITS

The federal government offers rebates for vehicles using Compressed Natural Gas (CNG) through its Alternative Fuel Tax Credit Program. Additionally, Metropolitan is entitled to credits for California Diesel Fuel Tax. Metropolitan should take advantage of all entitled federal energy rebates and tax credits for the appropriate amount.

Our audit of 67 Fleet Card transactions revealed that Metropolitan records CNG expenses in the Propane account. Consequently, we do not claim the federal CNG credit. Additionally, we noted that the historical off-road diesel fuel usage is greater than 50%; Metropolitan uses 28% to calculate the tax credit. For illustrative purposes, using 50% would yield an additional tax credit of \$15,787.

Failure to claim appropriate energy rebates could result in financial loss to Metropolitan.

We recommend that Fleet Management and the Controller's section reassess the federal CNG and state diesel fuel rebates. Consideration should be given to creating a separate account for CNG expenses.

POLICIES AND PROCEDURES

Written policies and procedures should be established and documented to provide a framework for achieving compliance with regulatory requirements, the Metropolitan's Administrative Code, and department goals and objectives. Written procedures assist management in training new employees, provide guidance for the consistent performance of daily responsibilities, and provide a source of reference for experienced personnel.

Our review of Fleet Management Procedures and the Fleet Maintenance Manual revealed no procedures for vehicle transfers. We also noted that responsibilities for car custodians and fuel users are not defined. Also, there is no standard reporting mechanism to communicate vehicle assignments and changes or malfunctioning equipment; such communications occur through email or undocumented conversations.

Incomplete policies and procedures may result in inconsistent performance and unfulfilled goals and objectives.

We recommend Fleet Management establish policies and procedures to guide those who utilize company vehicles. In addition, we recommend Fleet Management consider creating an e-form to facilitate changes in vehicle assignments, malfunctioning equipment, and other standard communication situations.

MANAGEMENT RESPONSE

As of the date of this report, we have not received a written response from management.