

Office of the City Auditor

ACTION CALENDAR
April 26, 2011

To: Honorable Mayor and Members of the City Council
From: Ann-Marie Hogan, City Auditor
Subject: Audit: City Fuel Operations Need Improvement

RECOMMENDATION

Request the City Manager report back by October 25, 2011 (and every six months thereafter) regarding the implementation status of each recommendation in the attached audit report until all recommendations have been reported implemented.

SUMMARY

The City's fuel operations are managed by the Public Works Equipment Maintenance Division and the Fire Department. Results of our fuel operations audit follow:

Audit Objective 1: Was all gasoline and diesel purchased for the City's refueling stations received?

Unknown. Fuel invoices were approved for payment without verifying invoiced fuel amounts were received. (Finding 1, 2)

Audit Objective 2: Was all gasoline and diesel fuel purchased by the City during fiscal year 2010 accounted for as either billed to users or in storage?

No. Approximately 13% is unaccounted for and not billed to users. This represents about 57,000 gallons of fuel purchased at an estimated cost of \$153,240. Most of the unaccounted for fuel appears to be due to two malfunctioning fuel dispensing units, one at the Corporation Yard and one at the Transfer Station. (Finding 1) About 7,000 of the 57,000 gallons of unaccounted for fuel is associated with seven Fire Stations. The 7,000 gallons represent approximately 25% of the diesel fuel purchased for the Fire Stations. The reason for this condition appears to be that Fire personnel are not self-reporting all refueling activity. (Finding 2) Control improvements are needed in Public Works and Fire.

Audit Objective 3: Could procedures allow refueling errors and abuse to go undetected?

Yes. At the Corporation Yard and Transfer Station, errors and abuse can go undetected because one supervisor routinely performs almost all fuel related tasks and his work is not reviewed and approved. (Finding 3) This employee (as well as four others) can also bypass the automated fuel dispenser system (Gasboy) and pump fuel without this activity being recorded. At the Fire Station refueling locations, abuse can go undetected because all Fire personnel have access to the pumps and self report fuel usage. Checks and balances are not in place. (Finding 2) Fuel purchases, inventory, and billed fuel usage are not periodically reconciled at any City location as a means of identifying unaccounted for fuel. (Finding 1, 2)

FISCAL IMPACTS OF RECOMMENDATION

During fiscal year 2010 City departments, the Berkeley Unified School District, and the Ecology Center, were not charged for 57,000 gallons of fuel. The cost of this fuel, approximately \$153,240, plus a 15% administrative fee, equates to \$176,226 not collected by Public Works. Implementation of audit recommendations associated with findings 1, 2 and 3 should help ensure all fuel is accounted for and paid for by the departments that use the fuel.

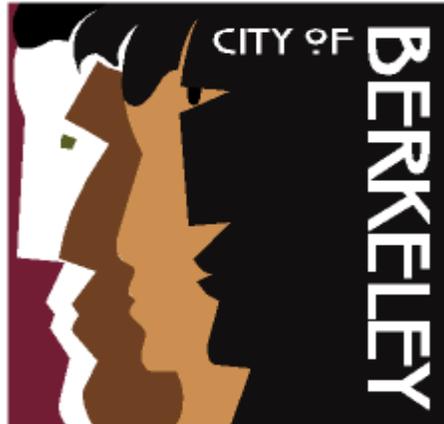
CONTACT PERSON

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Attachment:

1. Audit: City Fuel Operations Need Improvement

City of Berkeley



Audit: City Fuel Operations Need Improvement

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Presented to Council on April 26, 2011

Audit: City Fuel Operations Need Improvement
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I. EXECUTIVE SUMMARY

Objective 1: Was all gasoline and diesel purchased for the City's refueling stations received?

Invoiced fuel quantities are not verified

Unknown. Public Works and Fire Department representatives approved the fuel invoices for payment without verifying invoiced fuel amounts were received. The means to accurately measure the amount of fuel delivered is available. (Finding 1, 2)

Objective 2: Was all gasoline and diesel fuel purchased by the City during FY2010 accounted for as either billed to users or in storage?

Public Works did not charge users for approximately 57,000 gallons of fuel.

No. Approximately 13% is unaccounted for and not billed to users. This represents about 57,000 gallons of fuel purchased at an estimated cost of \$153,240.

Most of the unaccounted for fuel appears to be due to two malfunctioning fuel dispensing units, one at the Corporation Yard and one at the Transfer Station. Almost all the fuel dispensed from these units was not recorded and billed. (Finding 1)

About 7,000 of the 57,000 gallons of unaccounted for fuel is associated with seven Fire Stations. The 7,000 gallons represent approximately 25% of the diesel fuel purchased for the Fire Stations. The reason for this condition appears to be that Fire personnel are not self-reporting all refueling activity. (Finding 2)

Objective 3: Could procedures allow refueling errors and abuse to go undetected?

Refueling transactions are adjusted and deleted without supervisory review and approval.

Yes. At the Corporation Yard and Transfer Station, errors and abuse can go undetected because one supervisor routinely performs almost all fuel related tasks and his work is not reviewed and approved.(Finding 3) This employee (as well as four others) can also bypass the automated fuel dispenser system (Gasboy) and pump fuel without this activity being recorded.(Finding 3)

At the Fire Station refueling locations, abuse can go undetected because all fire personnel have access to the pumps and self report fuel usage. Checks and balances are not in place. (Finding 2)

No one is reconciling fuel purchases, inventory, and billed fuel usage to identify unaccounted for fuel at any of the City operated refueling stations. (Finding 1, 2)

II. BACKGROUND

The Public Works Equipment Maintenance Division has an adopted Fiscal Year 2010 budget of \$8.9 million and 20 employees. This division manages the City’s vehicle and equipment fleet, which includes maintenance, repair and purchases. They also manage the refueling station operations at the Corporation Yard and Solid Waste Transfer Station. The Fire Department manages the refueling stations at each of seven Fire Stations. Approximately 465 large pieces of equipment (mostly vehicles), and numerous small pieces, are refueled at the City operated refueling stations.

City Refueling Locations

City Owned Refueling Locations	Tank Storage Capacity (Gallons)	Fuel Type
Corporation Yard	10,000	Unleaded gasoline
	10,000	Diesel
Solid Waste Transfer Station	10,000	Diesel
	10,000	Diesel
Fire Stations 1 – 5, 7	500	Diesel
Fire Station 6	1,000	Diesel

The City spent approximately \$1.1 million for diesel and unleaded gasoline in fiscal year 2010.

The Equipment Superintendent manages the Equipment Maintenance Division. Refueling activity at the Corporation Yard and Transfer Station Refueling stations are largely managed and performed by the Sr. Equipment Supervisor. During fiscal year 2010 the City purchased 427,783 gallons of unleaded gasoline and diesel at a cost of approximately \$1.1 million. Of this total, the Fire Stations received 29,932 gallons, or about 7%. When fuel is delivered, the driver leaves a receipt stating the volume of fuel delivered. The Equipment Maintenance Division pays for all the fuel delivered to the Corporation Yard, Transfer Station, and Fire Station refueling stations. This cost, plus a 15% administrative fee, is recovered when City department staff and other users are billed for fuel usage.

City operated refueling stations are used by City Departments, Berkeley Unified School District, and the Ecology Center.

Corporation Yard and Transfer Station Refueling Stations

An automated fuel tank management system, INCON, provides information about the fuel in the fuel storage tanks, such as volume and temperature of fuel on hand, and volume of each fuel delivery. Fuel storage tank measuring sticks are also available to manually measure the volume of fuel in the tanks, or the volume of fuel deliveries.

The City uses another automated system, Gasboy, to control and record the fuel dispensed at the pumps. Each vehicle or large piece of equipment that is refueled at these refueling stations is assigned a Gasboy key with a unique number. Each key is encoded with information about the vehicle, including its

refueling parameters. The Gasboy system records each refueling transaction by vehicle. To refuel, the Gasboy key must be inserted into a Gasboy interface device.



Information, including the vehicle's current odometer reading, must be input. All the refueling transactions in Gasboy are uploaded into the FUNDS¹ Fleet Management Module daily. This FUNDS information is used to bill City departments and other users for fuel usage. The Berkeley Unified School District and the Ecology Center refuel at the City's Corporation Yard or Transfer Station.



Fire Station Refueling Stations

Each of the seven Berkeley Fire Stations has one fuel pump. All Fire Station staff have access to these pumps. Staff are responsible for self-reporting the fuel they dispense in the Fire Department RedAlert software. The recording of fuel usage is on the honor system. The fuel transactions in RedAlert are periodically provided to Public Works, who input the data into the Fleet Management Module. The Fleet Management Module is used to charge the Fire Department for their fuel usage.

¹ City's automated financial system, a product of SunGard Public Sector.

III. FINDINGS AND RECOMMENDATIONS

Finding 1 Approximately 12% of the Fuel Purchased for the Transfer Station and Corporation Yard Refueling Stations Is Unaccounted for

Approximately 50,000 gallons of diesel and unleaded fuel purchased during FY2010 for the Transfer Station and Corporation Yard refueling stations is not accounted for. This fuel cost approximately \$133,500. Most likely legitimate use of this fuel was not recorded and billed due to malfunctioning equipment.

No procedure to identify fuel not in storage or billed to users.

No Procedure to Identify Missing Fuel

Public Works does not perform two common gas station procedures designed to identify unaccounted for fuel:

1. **No verification that fuel invoiced was received.** Unaccounted fuel could be due to delivery shortages. The INCON fuel tank management system automatically records the volume of fuel delivered to each tank. This data was not used by Public Works staff to determine if all fuel purchased was received. The auditors requested fiscal year 2010 INCON data so that we could perform our own comparison. We were told it had been inadvertently deleted the week prior to our request by a contractor servicing the systems printer. Fuel tank measuring sticks are available but were not used to determine if invoiced fuel volumes were correct.
2. **No reconciliation of tank inventory, fuel purchases, and fuel dispensed at the pumps.** Such a reconciliation would identify the volume of unaccounted for fuel.

Public Works did not bill fuel users for 50,000 gallons of fuel. (Excludes Fire Stations)

Possible Reasons for Missing Fuel

In addition to the possibility of fuel delivery shortages (discussed above), the following conditions could have resulted in unaccounted for fuel. Instances of a fuel dispensing system problem were confirmed to have occurred.

Fuel Dispensing System Problem (Gasboy)

After the audit identified unaccounted for fuel, Public Works hired TEC Accutite to test the Transfer Station and Corporation Yard fuel dispensing systems. The contractor reported that two dispensing units were not working properly. It appears these dispensers properly dispensed and displayed the fuel dispensed at the pump. However, the fuel dispensed was not recorded, or properly recorded, in Gasboy. Incorrect information was then uploaded to Fleet Management and used to bill customers. The unleaded fuel dispensed from dispenser seven at the Corporation Yard was neither being recorded in Fleet Management nor billed. The diesel fuel

Fuel transaction adjustment and deletion records are not available

dispensed from pump two at the Transfer Station was always incorrectly recorded and billed as 1/10 of a gallon in Fleet Management. The malfunctioning of these two fuel dispensers is the likely cause of the unaccounted for fuel. A fuel transaction report² that identifies the fuel transactions in Gasboy by fuel dispenser number is available but was not used to identify the malfunctioning dispensers. Fleet Management Module data indicates the two fuel dispensers started malfunctioning during June 2009. Public Works does not have the automated refueling system inspected periodically to make sure fuel usage is being properly recorded.

No Review and Approval of Adjusted and Deleted Refueling Transactions

The Equipment Superintendent and the Sr. Equipment Supervisor adjust and delete fuel transactions without supervisory review and approval. Information Technology Department staff indicated that due to Fleet Management Module limitations, a record of adjustments and deletions did not appear available. This condition will allow inappropriately adjusted or deleted fuel transactions to go undetected.

Five employees can override Gasboy – pump fuel and leave no record.

Refueling System Override

Five Equipment Maintenance staff can bypass the Gasboy system and dispense fuel at the Corporation Yard or Transfer Station without any record of this activity. They include the Equipment Superintendent and the Sr. Equipment Supervisor.

City Manager's Response to Finding

Agree.

Recommendations for Public Works and City Manager's Responses

- 1.1 Review the Gasboy fuel transaction report daily to help ensure all fuel dispensers show activity and appear to be correctly recording the volume of fuel dispensed. Incorporate into the written procedures.

Agree. Partially implemented. Will be fully implemented by July 2011.

- 1.2 When it is determined necessary to bypass the Gasboy system, the act of bypassing the system should require two authorized employees. Incorporate into the written procedures.

Agree. Will incorporate into the written policies and procedures by July 2011.

² A fuel transaction report can be run directly from Gasboy or using Report Pro software. Both reports contain the fuel transactions by dispensing unit in Gasboy since the last upload from Gasboy to the Fleet Management Module. Only the Gasboy report includes the refueling transactions that show no fuel was dispensed.

1.3 Require staff verify invoiced fuel quantity for each fuel delivery is correct prior to approving an invoice for payment. Incorporate into the written procedures.

Agree. Partially implemented. Will fully implement by July 2011.

1.4 At least monthly, reconcile tank inventory, fuel purchases, and fuel dispensed and billed. When a significant volume of fuel is unaccounted for, the cause should be investigated, and new procedures implemented to help ensure it does not happen again. Incorporate into the written procedures.

Agree. Will incorporate into the written policies and procedures by July 2011.

1.5 Periodically have the automated fuel system (currently Gasboy, Report Pro and INCON) inspected to help ensure it is working properly and recording accurately.

Agree. Partially implemented. Will fully implement by July 2011.

Recommendation for Public Works and Information Technology and City Manager's Response

1.6 If cost effective:

1. Modify the Fleet Management Module so that fuel transaction adjustments and deletions (pump activity) can only be made after they are reviewed and approved by a supervisor.
2. Create the ability to generate a report that identifies all adjusted and deleted fuel transactions.

Information Technology has determined that it is not cost effective to implement 1.6.1. Regarding 1.6.2, by December 31, 2011, Information Technology will develop a report that can list all adjusted and deleted fuel transactions for a requested period of time. A supervisor in Public Works will review and approve this report, which will be kept on file.

Finding 2 Approximately 25% of the Diesel Fuel Purchased for the Fire Stations Is Unaccounted For

Approximately 7,000 gallons of diesel fuel purchased for the Fire Department during fiscal year 2010 could not be accounted for. This represents approximately 25% of the fuel purchased for the Fire Stations. Most likely this is the result of Fire personnel refueling fire vehicles at the Fire Stations and then not self reporting this activity in the Fire Department's RedAlert system.

Management acknowledged that this does occur. All Fire Station personnel have access³ to the Fire Station fuel dispensers.

Fire did not pay Public Works for 7,000 gallons of diesel in fiscal year 2010

When fuel usage at the Fire Stations is not recorded in RedAlert, the Fire Department is not billed by Public Works for this fuel. During FY2010 Public Works was not reimbursed approximately \$19,700 for fuel purchased for Fire.

The following procedures are not in place at the Fire Stations to help ensure all fuel purchased is received and used for authorized purposes:

1. No verification that fuel volumes invoiced were received.

City staff do not identify actual fuel delivery volume and compare it with invoiced quantity. It appears the fuel tank gauge on each Fire Station fuel tank can be used to identify actual fuel delivery volume. However, Fire staff interviewed stated they did not know how to use it. Unaccounted for fuel could be due to delivery shortages that were not detected.

2. Tank inventory, fuel purchases, and billed fuel usage are not reconciled periodically to make sure all fuel is accounted for.

Reconciliations would identify unaccounted for fuel so that the cause could be investigated and corrected.

City Manager's Response to Finding

Agree.

Recommendation for Public Works and Fire Departments and City Manager's Response

- 2.1 Have the Fire Department, instead of Public Works, pay all Fire Station fuel delivery invoices. Public Works should discontinue billing for Fire Station fuel usage in the Fleet Management Module.

Agree. The Fire Department will transition management of the diesel fuel invoices for the Fire Stations on July 1, 2011.

Recommendations for Fire Department and City Manager's Responses

- 2.2 Verify invoiced fuel delivery volume is accurate prior to approving an invoice for payment. Incorporate into the written procedures.

Agree. The Fire Department will adopt new policies for processing invoices and reconciliation to become effective May 1, 2011.

³ Fire Department management stated most Fire Stations have a padlock on the fuel pump handle to prevent unauthorized dispensing of fuel by the public. At some Fire Stations the pump may also have to be turned on from inside the station. However, all fire personnel are authorized to use the fuel pumps at any of the Fire Stations to refuel fire vehicles and equipment.

- 2.3 At least quarterly, reconcile tank volume, fuel purchases and fuel usage records⁴ at each Fire Station. When a significant volume of fuel is unaccounted for, the cause should be investigated, and new procedures implemented to help ensure the cause does not happen again. Incorporate into the written procedures. The reconciliation should be performed by someone that does not have access to the fuel.

Agree. At least quarterly, the Fire Department accounting staff will reconcile tank volume, fuel purchases and fuel usage records at each Fire Station. When the reconciliation identifies a difference of 100 gallons or more for all seven stations combined, the operations division shall investigate and determine the cause for difference, and if necessary implement corrective policies to maintain accurate fuel counts. The Fire Department will adopt new policies to be effective May 1, 2011.

Finding 3 Employees Can Perform Incompatible Duties

Several employees in the Public Works Equipment Maintenance Division can perform incompatible duties that could allow errors and irregularities to take place and not be timely detected during the normal course of business.

The Institute of Internal Auditors (IIA) states that the basic idea underlying a segregation of incompatible duties is that no employee or group of employees should be in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties. They further state that one person should not have access to assets and the responsibility for maintaining the accountability of those assets.

Sr. Equipment Supervisor performs all fuel related tasks.

The Sr. Equipment Supervisor performs all fuel related activities for the Corporation Yard, almost all for the Transfer Station, and has access to the fuel. He orders⁵ and receives fuel, programs and issues gas keys, adjusts and deletes fuel transactions, and records and bills for fuel usage. The Equipment Superintendent can also perform most of these duties. He does not order or receive fuel. The Sr. Equipment Supervisor, Equipment Superintendent, and three others also have access to the Gasboy bypass key, whereby they can pump fuel without it being detected or recorded.

City Manager's Response to Finding

Agree.

Recommendation for Public Works and City Manager's Response

⁴ The continuous meter on the fuel pump can be used to identify total gallons of fuel dispensed for any given period.

⁵ The Sr. Equipment Supervisor is not one of the employees authorized on the purchase order with the fuel vendor to order fuel, but is performing this task.

- 3.1 Establish written policies and procedures that prohibit staff from performing incompatible fuel related duties. If an employee is authorized to perform an incompatible duty, as a compensating control, require that their supervisor review their work for errors and irregularities prior to giving their documented approval. Employees with access to fuel should not be responsible for creating or maintaining related records and performing reconciliations.

Agree. Will implement by July 2011.

Finding 4 Retention of Slightly Used and Reusable Parts from Disposed Equipment Is Not Documented

The Equipment Maintenance Superintendent stated that slightly used tires and other reusable parts are always removed prior to a vehicle or large equipment being disposed of. A job order documents when equipment is readied for disposal. However, a record of the parts removed and what was done with them is not available. As a result, it appears there is an increased risk of reusable parts being disposed of, or used for unauthorized purposes, without detection.

Reusable parts, such as slightly used tires, are not inventoried.

As an example, new tires were to be removed from a patrol car (equipment #1532) prior to the vehicle being taken out of service. Approximately 200 miles were on the tires. Records are not available to document what happened with these tires.

City Manager's Response to Finding

Agree.

Recommendation for Public Works

4. Maintain records that document the removal, storage, and reuse of slightly used tires and other parts from vehicles and large equipment prior to their disposition.

Agree. Will implement by July 2012 when the new parts inventory system is put in place.

Finding 5 Monitoring of Equipment Fuel Usage Can Be Improved

No fleet report with vehicle expected versus actual mileage.

A report is not available that shows all the vehicles and equipment with significantly lower than expected miles-per-gallon (mpg). As a result, waste and abuse of fuel is more likely to go undetected.

The Equipment Maintenance Division is responsible for monitoring that equipment fuel usage is reasonable. The Equipment Superintendent stated he randomly selects pieces of equipment and reviews their fuel usage. This activity and the results are not documented.

We calculated each vehicle's average miles-per-gallon (mpg) during FY2010 and compared it with expected mpg recorded in the Fleet Management Module. Some significant differences were noted. Two gas operated 4-yard dump trucks had the lowest reported mpg, one averaging .21mpg, the other .43 mpg.⁶ Both had an expected mpg of 5 mpg. Each vehicle's estimated mpg in Fleet Management is based on the manufacturer's estimate or staff's past experience with similar vehicles.

City Manager's Response to Finding
Agree.

Recommendation for Public Works and Information Technology and *City Manager's Response*

- 5.1 Request SunGard or Information Technology write a program that allows Public Works staff to generate a report that identifies all vehicles in the City fleet and compares actual versus expected miles-per-gallon for each.

Agree. Information Technology will write a program that allows Public Works to generate the recommended report by July 2011.

Recommendation for Public Works and *City Manager's Response*

- 5.2 Develop written procedures for: 1) monitoring vehicle miles-per-gallon, 2) researching questionable miles-per-gallon, and 3) documenting results.

Agree. Will implement by July 2011.

⁶ Part of the reason for the low mpg is that both trucks tow / carry a small cement mixer and use fuel charged to the truck to run the mixers. This practice is contrary to stated policy.

Finding 6 Staff Unfamiliar With Gasboy Reports

Familiarity with Gasboy Reports May Help Improve Fuel Operations

Some vehicles had their gas keys programmed with a product limit code that placed unintended refueling limits on vehicles at the fuel dispensers. It appears this occurred because some Equipment Maintenance staff had forgotten what some of the product limit codes represented. During a November 2010 Gasboy system inspection by a contractor, staff were shown Gasboy reports that were available and how to run them. Previously, staff were only aware of one Gasboy report. One of the reports now available identifies the established product limit codes, which eliminated misunderstandings about the codes. Other reports may help staff better oversee fuel operations.

City Manager’s Response to Finding
Agree.

Recommendation for Public Works and City Manager’s Responses

6.1 Consider providing staff that manage and monitor fuel operations at the Transfer Station and Corporation Yard refueling stations with training on how to run and properly utilize demand reports from the Gasboy system and other fuel monitoring systems.

Agree. Some training has already been provided. Fully implement by July 2011.

6.2 Correct all unintended fuel limits assigned to vehicles and large equipment.

Agree. Fully implemented. Approximately 10 vehicles were affected.

IV. FISCAL IMPACT

During FY2010 City departments, the Berkeley Unified School District, and the Ecology Center, were not charged for 57,000 gallons of fuel. The cost of this fuel, approximately \$153,240, plus a 15% administrative fee, equates to \$176,226 not collected by Public Works. Public Works may have also had significant fuel losses in other years since procedures to prevent and detect errors and abuse do not appear to have been in place then either. Implementation of audit recommendations associated with findings 1, 2 and 3 should help ensure all fuel is accounted for and paid for by the departments that use the fuel. Better controls over the re-use of lightly used parts will also improve protection of City resources.

Buying an automated system such as Gasboy to control access to the Fire Station fuel pumps, and record each fuel transaction, does not appear to be a cost effective solution. For this reason it is not being recommended. Periodic fuel reconciliations will allow Fire representatives to identify how much fuel is unaccounted for. Significant amounts of unaccounted for fuel should be investigated and the cause corrected.

Given that the City spent \$1.1 million for unleaded and diesel fuel in fiscal year 2010, implementation of our recommendations should help protect a significant asset.

Appendix A: Scope and Objectives

An audit of the City's fuel operations was performed with the following objectives:

1. Was all gasoline and diesel purchased for the City's refueling stations received?
2. Was all gasoline and diesel fuel purchased by the City during FY2010 accounted for as either billed to users or in storage?
3. Could procedures allow refueling errors and abuse to go undetected?

Audit scope was limited to City owned refueling station operations. The audit period was fiscal year 2010 and part of fiscal year 2011. This audit did not look at the possible replacement of any of the automated systems that pertain to refueling station operations, including the SunGard Fleet Management Module and Gasboy. Audit fieldwork started on June 29, 2010 and ended on December 10, 2010.

The information used to perform this audit was obtained primarily through:

- Walkthroughs to determine how fuel is ordered, received, dispensed, billed and monitored.
- Reviewing written policies and procedures.
- Discussions with staff in the Public Works and Fire Department regarding operations.
- Discussions with Information Technology Department staff regarding Fleet Management Module vehicle fuel usage history and fuel transaction adjustment and deletion history.
- Analysis of fuel purchases and usage using Audit Command Language (ACL) and Microsoft Excel.
- Comparing City policies and procedures with industry best practices.

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.

