

AUDITOR GENERAL

Halifax Regional Municipality

A Performance Review of HRM's Equipment Fuel Program©

Audit & Finance Standing Committee
September 17, 2014

- 11 Fuel Locations throughout HRM
 - 8 locations dispensed/monitored by a computerized system (cardlock)
 - 3 locations not dispensed/monitored electronically
- Approximately 3.9 million litres of fuel consumed annually
 - Not including Halifax Transit
- Fuel obtained by using
 - FOB
 - Commercial Credit Card

Fobs in Circulation – December 2013

Business Segment	Number of Fobs
Chief Administrative Officer (CAO)	2
Community and Recreation Services	73
Finance and Information, Communications & Technology (FICT)	15
Halifax Regional Fire and Emergency Services (HRFE)	160
Metro Transit	18
Planning and Infrastructure	1
Transportation and Public Works (TPW)	381
Halifax Regional Police (HRP)	244
Halifax Public Library	9
Halifax Regional Water Commission (HRWC)	241
Halifax Forum	1
Halifax Centennial Arena	1
Total	1,146

Commercial Cards in Circulation – December 2013

Business Segment	Number of Cards
Halifax Regional Fire and Emergency Services (HRFE)	185
Finance and Information, Communications & Technology (FICT)	2
Halifax Regional Police (HRP)	20
Community and Recreation Services	3
Transportation and Public Works (TPW)	9
Total	219

Scope and Objectives

- **Scope:** HRM's business units and ABCs utilizing the HRM fuel program, the scope covered April 1, 2011 – December 31, 2013. Including:
 - Fuel fob/Commercial card management
 - Fuel usage

- **Objective:** assess if the HRM equipment fuel program ensures an efficient, effective and economic use of resources. Focusing on the following:
 - Overall Governance including:
 - Policies and procedures
 - Controls
 - Reporting

Performance - Governance

- Few proper processes in place to ensure an efficient, effective, and economic equipment fuel program
- Very limited policies and procedures – two documented
- Decentralized organizational structure
 - Yet appears the attempt is to centralize the program
- Controls not understood by all and few functioning controls
- Little in the way of meaningful reporting

Materiality

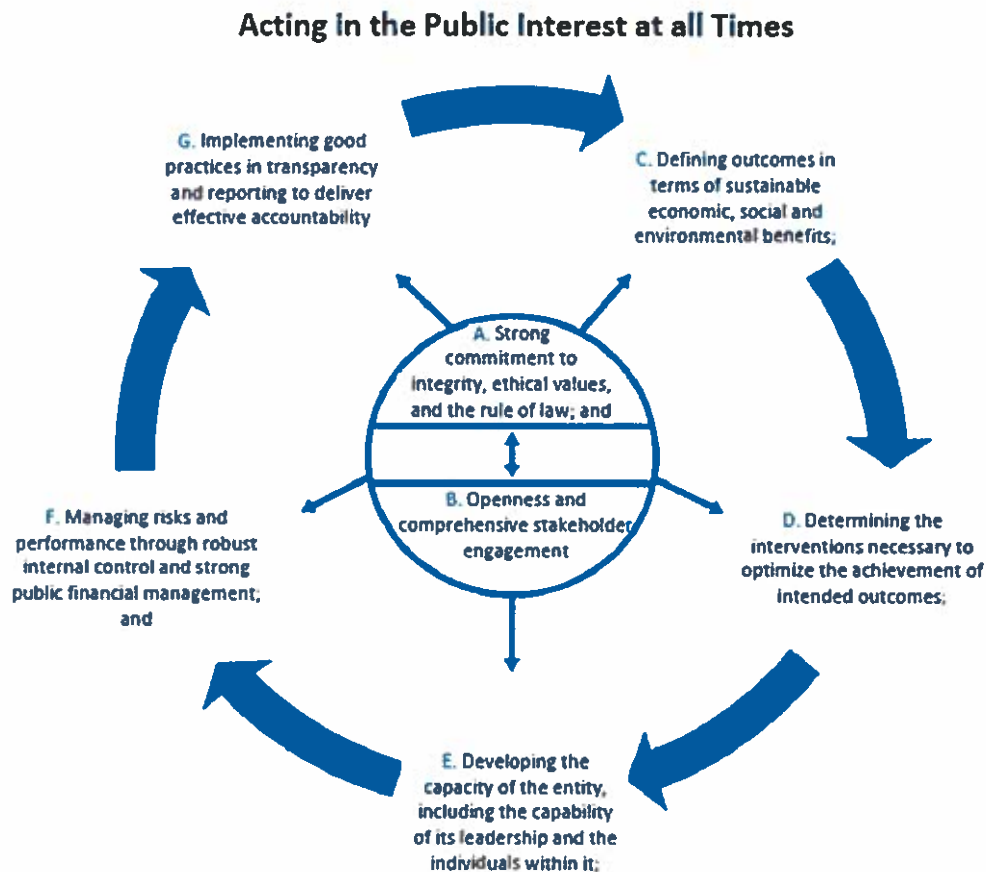
- \$4 million spent annually on equipment fuel may be considered immaterial for financial statement purposes.
- Materiality different for classes of transactions than financial statements as a whole.
- Materiality of issues looked at individually or collectively.
- Materiality in performance (value-for-money) auditing – not the same:
 - Limiting definition to omissions/ misstatements excludes concerns around financial management behaviour,
 - Users may make decisions other than economic decisions.

- Performance auditing considers to what extent value is or is not achieved – the amount spent is not the issue it's **how** the tax dollars were spent and whether the program **outcomes** were achieved.
 - Some transactions more sensitive to taxpayers than others.

- Taxpayers are concerned with whether tax dollars are being managed properly, the OAG's role is to report on whether this is happening regardless of the financial statement materiality of the program.
 - Greater emphasis on qualitative aspects.

Governance of Program

Relationships between the Principles of Good Governance in the Public Sector



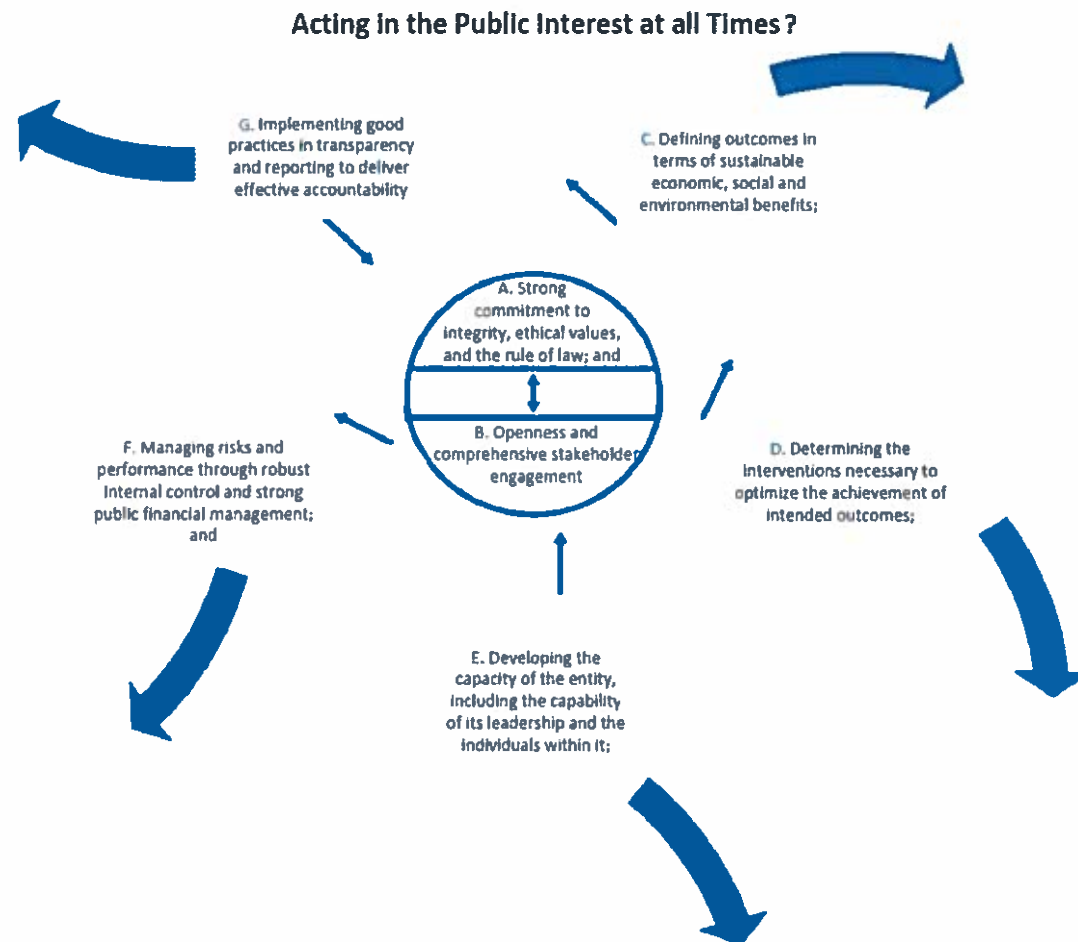
Governance of Program

- The program is functioning to provide an output, however there is no evaluation of whether this process is optimal for HRM.
- There does not appear to be a centralized accountability for the entire fuel process:
 - There is no management of the overall fuel process,
 - The OAG concludes, at the time the project commenced, no one person understood all components – far too fragmented,
 - The OAG questions why a decision would be made to apparently eliminate all accountability at the business segment level.
- There is currently no required reporting within the various business segments to review and authorize the fuel (transactions) used by them.

Governance of Program

- System as it presently exists:
 - Business segments decide if they need cards/FOBs,
 - Procurement/ TPW has limited authority over issuance,
 - Business segments “responsible” for usage,
 - TPW holds budget for all – no individual business segment budgets – no allocation to business segments,
 - Overall business segment spending understated.

Fragmentation - Lack of Governance



- Only two policies related to the equipment fuel program exist.
- During the review the OAG noted several examples where clear policies and monitoring of compliance would aid in better controls over fuel:
 - Miscellaneous fob at HRP being used to obtain an average of 500 litres of fuel per week,
 - Commercial cards used when HRM pumps are close by,
 - No requirement to reconcile commercial card receipts to a monthly statement or authorizations for reasonableness by a supervisor.

- The OAG was given clear impression staff see more controls needed as well.
- Budgeting appears based on previous trends – likely builds problems in.
- Little in the way of sign-offs ie. accepting responsibility for:
 - Commercial Card/FOB,
 - Usage.
- Issues with overrides which can take place at the pumps.

- Managers are not certain of what takes place outside their area – lots of assumptions made around controls “operating in the background”.
- Overrides available to what limited controls management has in place.
- No policy requiring commercial cards be reconciled, therefore risk of:
 - Inappropriate purchases,
 - Other items purchased.
- Lack of segregation of duties – one situation noted where one individual has access to all components of system.

- No separate reporting by person or card/fob.
- Camera monitoring not consistent – tends to be poor overall.
- Odometer readings not required for miscellaneous cards and transactions for these cards are not tracked.
 - Over the review period, about 3.7% of all transactions were made using miscellaneous fobs – close to \$400,000.
- Equipment master files do not contain the fuel tank size for the various equipment so no flag exists if fueling exceeds the tanks capacity.

- System integrity issues exist between the equipment master file, the pro fuel system and SAP.
- Manual overrides often completed but not required to be reviewed or analyzed.
- Situations noted where 0 kms reported as driven, yet fuel assigned to unit.

- When a fob or commercial card is activated in the fuel system it can either be:
 - Assigned to specific equipment,
 - Identified as miscellaneous and assigned to a person or,
 - Identified as spare and assigned to a person.

- 20 active fuel fobs assigned to Police Garage supervisor as 'spare':
 - This is the only incidence where fobs are issued in this manner and the reason given was due to HRP losing multiple fuel fobs,
 - Between April 1, 2011 and September 19, 2012 HRP was issued 142 new fobs.

- Inventory Analyst does not cancel cards without supervisor request which has resulted in inactive cards remaining live in the system.

- 9% of commercial cards and 5% of fuel fobs had not been used between April 1st, 2011 and December 2013.

- 3 (6.4%) instances in sample of 47 where fobs could not be located.
 - If we used the same % of the approx. 1,300 fobs and cards in circulation, this could mean close to 80 are active and may not be able to be located.

- Storage of the fobs and cards varies across business segments the one consistency being the keys and fobs are not securely stored.
- In the case of commercial fuel cards PIN numbers are kept with the cards in most cases.
- Physical controls around the fueling locations also varies from restricted gate access with video monitoring to a lock and key control.

Available Reporting

- Reporting available is summary reports which likely contain undetected errors.
- No unit number detail available for commercial fuel card transactions.
- No reporting of commercial cards used where HRM fuel pumps are close by (not always economical).
- Untimely recording of inventory receipts leads to inaccurate reports.
- Failure to identify root cause of errors in inventory reconciliations – assumptions often made as to what the issue “might” be.

Available Reporting (continued)

- No regular reporting of inactive fobs or cards.
- No reporting of miscellaneous card usage.
- No formal process for meaningful variance analysis - any done appears totally random.
- Situations noted where commercial card monthly purchases report done by business segment, sent to TPW and put in drawer.

Available Reporting (continued)

- The inventory data produced appears to be primarily used only to determine when to order more.

- Errors identified between SAP and fuel system.
 - Strongly suggests reporting not accurate.

- Controls around use of corporate purchasing cards are not applicable to commercial fuel cards.

30 Recommendations in Total

- 1.0.1 The OAG recommends HRM Administration develop appropriate governance over the equipment fuel program including guidance around such things as:
- Program goals and defined outcomes and,
 - Key performance measures which will be used to determine proper effectiveness.
- 1.0.2 The OAG recommends HRM Administration review the organizational design for the administration of the fuel program. Consideration should be given to having the inventory monitoring and fob/card administration combined with the budgeting and reporting of usage.

Key Recommendations

2.0.1 The OAG recommends HRM Administration develop a policy around the use of fuel cards (both commercial and HRM fuel fobs) including, but not limited to, the following:

- proper authorization to obtain a fuel fob/card,
- clear communication to all employees regarding use of the fuel fob/card for the fueling of HRM vehicles only,
- specifying the type of fuel which can be purchased,
- requiring supervisors to review and approve fuel transactions and provide support to Procurement or Fleet Services for reconciliation purposes,
- indicating when use of a commercial fuel card is allowed (i.e. when outside the HRM core, outside by a specified number of kilometres or disallowing use of the commercial fuel card within the HRM core),
- prohibiting the purchase of non-fuel items using a commercial fuel card and,
- requiring original receipts be retained for all commercial fuel card purchases and be reconciled on a monthly basis.

- 2.0.3 The OAG further recommends supervisors be required to monitor adherence to policies and provide instruction for corrective action when necessary.
- 3.0.1 Once an appropriate organizational design has been determined (Recommendation 1.0.2), the OAG recommends reporting by business segment be provided on a routine basis for review and monitoring purposes.
- 3.0.5 The OAG recommends HRM Administration require supervisors to review fobs/cards within their responsibility on (at least) a six-month basis to ensure there is still a need for the fob/card and limit exposure to misuse.

Key Recommendations

- 3.1.1 The OAG recommends HRM Administration require supervisors review and sign-off all fuel transactions by fob/unit to document their accountability for the fuel usage.
- 3.1.3 The OAG further recommends HRM Administration identify appropriate data to be collected and included in master files so meaningful exception reporting can be developed. The OAG recommends supervisors be required to identify unusual transactions, such as fueling outside of 'normal' use times, for further investigation.

3.2.1 With respect to the use of commercial fuel cards, the OAG recommends HRM Administration develop reports to identify where fuel was purchased and the fuel grade by card/unit so corrective action can be taken when employees are not fueling with the most economical fuel option for HRM.

4.1.1 The OAG recommends HRM Administration review employee duties related to fuel fob/card activation, master file access, transactional data access, physical fob access and fuel pump access to ensure duties are segregated to ensure appropriate controls are in place.

- 4.1.2 The OAG also recommends HRM Administration strengthen controls around issuance of fuel fobs and cards by requiring all requests be documented and authorized.
- 4.1.3 The OAG further recommends HRM Administration investigate why 'spare' fobs are required by HRP with a goal of discontinuing, or at least minimizing, the practice.
- 4.2.1 The OAG recommends HRM Administration review the number of fuel fobs/cards in circulation to ensure all are operationally necessary. The OAG further recommends this should be done on a regular, recurring basis – possibly annually.

- 4.2.2 The OAG recommends HRM Administration ensure a fob and card listing be provided to each responsible supervisor, at least annually, to confirm the existence of the fobs/cards as well as to confirm the need for the fob/card if it has not been used. If a response is not received from the supervisor within a specified time period, the fob/card should be cancelled to prevent misappropriation.
- 4.3.2 The OAG further recommends HRM Administration stop the practice of storing PIN numbers with commercial fuel cards. Only employees authorized to use the cards should know the PIN.

Key Recommendations

- 4.4.1 The OAG recommends HRM Administration compile a detailed listing of all fueling locations, the physical controls in place and a risk assessment for each location. With this information, the OAG recommends a cost/benefit analysis be performed and a decision made on the amount of additional controls required for the risks associated with the locations.
- 4.5.2 The OAG also recommends HRM Administration review the data points being collected in the fuel and SAP systems and ensure the appropriate information (such as fuel tank size or fuel threshold) is available for various exception reporting and as a point of control.
- 4.5.3 The OAG recommends HRM Administration fully investigate system integrity issues to ensure accurate information is being reported for fuel usage.

4.6.1 The OAG recommends HRM Administration track and review the use of the override codes by unit and employee to identify any possible trends.

4.7.1 The OAG recommends HRM Administration require reconciliation and approval of commercial fuel card transactions on a monthly basis, including matching of receipts to the statement and signature by (at least) the supervisor.

Management Response

September 3, 2014

Larry Munroe
HRM Municipal Auditor General
Belmont House, Suite 620
33 Alderney Drive
Dartmouth, Nova Scotia B3J 3A5

Re: A Performance Review of HRM's Equipment Fuel Program

Dear Mr. Munroe:

I have read the report, *A Performance Review of HRM's Equipment Fuel Program* submitted to me on August 18, 2014 by your office. I am in general agreement with its content and the overall direction proposed. As with all reports that your office has completed, HRM Administration will take the recommendations under consideration and develop a plan to address the main issues identified in the report.

The emphasis on assessing the existing HRM fuel program to ensure efficient, effective and economic use of resources is consistent with outcome we hope to achieve in all of our programs and activities. As you suggest in your report, we will begin the process of improving our management of fuel by developing overall policy to support the program, better identifying individual accountability for expenditures, and implementing more consistent monitoring and reporting.

One of the specific issues of note is your observation that expenditures for fuel are currently coordinated centrally, rather than at the business unit level. To ensure we identify the appropriate levels of responsibility for identifying and tracking fuel costs, our finance and operations staff will work jointly to develop the most reasonable approach to this issue.

In response to the recommendations put forth in this report, HRM Administration will continue to ensure the findings presented by your office are addressed in a coordinated and appropriate manner, and strive for the best possible result for the municipality.

Sincerely,


Original Signed
Richard Burt
Chief Administrative Officer

AUDITOR GENERAL

Halifax Regional Municipality

QUESTIONS

FALL 2014

- Lunch & Learn Information Sessions with Councillors:
 - *Value for Money in the Public Sector.*

- A Performance Review of the Washmill Lake Court Extension Project[©]

- A Performance Review of Halifax Regional Fire & Emergency Non-Emergency Fleet Vehicle Allocation[©]

- OAG Published Reports Follow Up: Dashboard

Overall Risk Ranking

Impact

High

Medium

Low

3	6	9
2	4	6
1	2	3

Low
Likelihood

Medium

High

**Dashboard 20XX – XX
Recommendation Summary**

Published	Report	Number of Recommendations	Status of Recommendations			
			Fully or Substantially Implemented	Alternative Action Taken	Partially Implemented	No Substantial Action Taken
Initial Follow-ups						
Percentage of Total Recommendations			%	%	%	%