

AUDITOR GENERAL

Halifax Regional Municipality

A Performance Review of HRM's Equipment Fuel Program[©]

May 2014

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Preamble - Equipment Fuel Program

HRM owns and/or uses a significant amount of equipment (from fire trucks to snow plows, lawn mowers and generators) which is fueled by either gas or diesel. As a result, HRM has a fuel program to distribute fuel for this equipment which can be accessed in two ways. Fuel can be obtained through either the HRM Fuel System or through use of a commercial fuel card at a retail fuel location.

HRM Fuel System

FOB Method

There are currently 11 municipal fuel locations throughout HRM. Fuel for these sites is purchased as part of a Province of Nova Scotia contract with a local wholesale fuel provider. Under this contract, prices change weekly. HRM annually purchases approximately 3.9 million litres (costing approximately \$3.8 million) of bulk fuel (gas and diesel) for distribution through the fuel locations. These amounts do not include the fuel purchased by Metro Transit for use in buses. Within these sites there are a variety of access controls and monitoring mechanisms. Eight sites are monitored by a computerized system (card lock system) and three sites are not monitored electronically. The Inventory Analyst in Procurement monitors the fuel levels in the tanks and is responsible for ordering fuel from the provider as needed.

Business segments¹ access fuel at the card lock locations using a fuel fob. A fob is a small electronic device used to authenticate with the fuel system. Fobs are distributed to the various business segments by the Inventory Analyst. Generally, to obtain fuel an employee will pass the fob in front of the fuel pump display unit and then enter the odometer reading of the vehicle. As of December 2013, there were 1,146 fobs in circulation at HRM and its Agencies, Boards and Commissions (ABCs) as follows:

¹ For brevity, throughout this report the OAG will refer to the HRM business units and selected ABCs collectively as business segments.

Exhibit 1 – Number of Fobs by Business Segment as at 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

The Municipality also provides a fuel service to other entities such as the Halifax Harbour Bridge Commission, Halifax Regional School Board and the Metropolitan Housing Authority. Fuel fobs are provided to these organizations to obtain fuel at HRM locations and the Municipality bills for the fuel usage, plus a markup, on a monthly basis.

Fuel can be obtained from locations not monitored electronically by using a key for the lock on the fuel tank. These locations are not accessible to all business segments.

Commercial Fuel Card Method

There are also commercial fuel cards (similar to a credit card but specifically for fuel purchases) available to be used at commercial fuel stations (i.e. Esso, Petro Canada, Irving). The Office of the Auditor General (OAG) understands these cards are intended to be used in areas where there are no HRM fuel locations. About 190,000 litres (costing about \$255,000) of fuel is purchased annually through various service stations using commercial fuel cards. In order to use these cards, a personal identification number (PIN) is required to be entered when fuel is purchased. These purchases are charged to HRM on a monthly basis by the card company. There are currently about 219 of these cards in circulation as follows:

Exhibit 2 – Number of Commercial Cards by Business Segment as at 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

Objective

The objective of this review was to assess if the HRM equipment fuel program ensures an efficient, effective and economic use of resources. In order to achieve this, the OAG developed the following lines of enquiry:

- 1.0 To determine if controls are in place to ensure fuel fobs and cards are being effectively managed (i.e. an effective outcome would be no misuse of cards).
 - 1.1 Physical controls:
 - Processes are in place to issue and cancel fuel fobs and cards (authorizations required).
 - Fuel fobs and cards are stored to prevent unauthorized access and use.
 - Physical controls (e.g. gates, locks) are in place for the fuel pumps to prevent unauthorized access.
 - 1.2 Other internal controls:
 - There are controls within the fuel fobs and cards (e.g. spending limits, authorizations, PINs).
 - Overrides of controls for fuel fobs and cards are monitored.
 - Fobs and cards are assigned to a specific piece of equipment. When the equipment is retired from service, fobs are appropriately accounted for. Fobs or cards cannot be used for another piece of equipment.

- 2.0 Reporting is available to managers regarding usage of fuel fobs and cards.
- Reporting is available of who uses fuel and for what purpose.
 - Reporting per fob or card is available to assess reasonableness of fuel usage.
 - Reports are available to ensure employees are following the 'rules' regarding fueling with the most economical fuel.
 - Reports are monitored by supervisors to detect employees fueling at odd times.
 - Reports are monitored by supervisors to detect fobs or cards being used that are assigned to equipment that is not in use at the time (e.g. fob being used in the winter assigned to lawn mowers).
- 3.0 Rules/procedures are in use by business segments (since there is apparently no corporate policy) governing usage of fuel fobs and cards and these rules/procedures promote the most economical and efficient use of the fobs and cards.
- Rules/procedures being used are documented.
 - Employees are required to fuel with the most economical fuel (e.g. self-serve, superior grade fuel allowed only if required). Instances where this is not followed are reported and consequences are documented.
 - Employees are instructed in procedures for non-fuel purchases (e.g. oil, car washes, windshield washer fluid).
 - Employees are instructed on the most efficient fueling times (e.g. fuel at the start or end of a shift instead of having to interrupt their work activities to fuel).
 - Employees are required to turn in the fuel fob or card at the end of the shift or after each use.
- 4.0 The organizational design and current responsibilities promote appropriate governance over the fuel management process at HRM.
- There is clear role definition and accountability.

Scope

The review included HRM's business units and ABCs utilizing the HRM fuel program. The OAG carefully considered the areas to be explored during the review and in order to see possible trends in data, the OAG decided to review transactional data for several years. Therefore, the scope covered April 1, 2011 – December 31, 2013.

The following items were considered in scope:

- Fuel fob/card management – issuance, cancelling, storage of fobs/cards, rules around usage (i.e. self service, fuel grade, non-fuel purchases), fob/card controls (i.e. spending limit, authorization), assignment to equipment, and reporting and
- Fuel usage – monitoring of fuel usage by unit, by fob/card, identification of unusual transactions, and exception reporting.

The following areas were considered out of scope:

- Fleet management – i.e. fleet size, procurement decisions for fleet replacement, preventative maintenance,
- Environmental management – i.e. fuel spills, storage tanks,
- Metro Transit fuel operations, since they operate a fuel operation available only to the Metro Transit fleet of buses. Corporate vehicles, assigned to supervisors, were included in the scope,
- Equipment fueled outside of the HRM fuel system and commercial fuel cards such as zambonis or forklifts which may be fueled with propane or operated on battery and
- Heating fuel for HRM buildings.

Methodology

Given there are no corporate policies in place, in order to map the current processes for issuance, cancelling, storage of cards, rules around usage (self service, fuel grade, non-fuel purchases, etc.), fob/card controls (spending limit, authorization, etc.), assignment to equipment, and reporting, the OAG conducted interviews with the

following:

- Finance and Information, Communications & Technology
 - Procurement
 - Team Lead, Inventory Management
 - Inventory Analyst
- Transportation and Public Works
 - Corporate Fleet and Equipment
 - Manager
 - Coordinator, Technical and Admin Services
 - Superintendent, Emergency Fleet
 - Supervisor, Police Garage
 - Facilities Management
 - Corporate Security Manager
- Halifax Regional Police
 - Operational Support Division
 - Financial Coordinator

The review also included a data analysis component. Data was gathered from the electronic fuel system (the system used to control fuel usage at the card lock locations within HRM) and from commercial fuel card data. This data was used by the OAG for trending purposes as well as to identify usage patterns.

The OAG also attempted, to the extent possible, to compare practices to other municipalities.

Executive Summary

Equipment fuel is a significant expenditure for any municipality. HRM spends about \$4 million annually on fuel and fuel prices have been steadily increasing over the past number of years. In mid-2004, average retail gas prices in Halifax were \$0.85 per litre. Nearly a decade later, in mid-2013, prices were around \$1.35 per litre – a 59% increase. The OAG feels HRM needs to ensure processes are in place to minimize the impact of these rising prices.

There are many risks associated with rising prices including the obvious increase in expenditure. HRM is partially mitigating this risk by entering into contract fuel pricing as part of the Province of Nova Scotia fuel contract. Prices change weekly, however the price is significantly lower than retail prices.

The OAG feels HRM should ensure controls are in place to monitor fuel usage in order to further minimize the impact of rising prices as well as to ensure appropriateness of fuel expenditures. As this report will demonstrate, governance over the fuel management program is key to making certain the proper processes are in place to ensure an efficient, effective and economic equipment fuel program. As a result of the information reviewed in completing this report, the OAG feels this governance is currently lacking with regard to management of the fuel program. It is not possible to determine if the program is effective in delivering intended outcomes as the fuel program outcomes have not been documented.

HRM currently employs a decentralized organizational design related to the management of fuel. The Fleet Services division is responsible for the annual budget for fuel. However, they have no responsibility or authority for how fuel is obtained and used. Fleet Services has no knowledge of various fuel inventories or purchasing of fuel as Procurement is responsible for fuel inventory as well as administration of fuel fobs and commercial fuel cards. Business segments who use the fuel are not required to sign off or approve any fuel transactions. This lack of accountability is the opposite of what the OAG would expect to see at a time when fuel prices have been increasing and taxpayers are demanding increased value for money and higher accountabilities – a time when HRM should be

looking to have tighter controls over fuel usage. The OAG is not saying a decentralized design cannot work, but in this case, no one functional area appears to be responsible for or has knowledge of all components of the fuel program. The practice of making a division accountable for budget resources they have little or no control over is not optimal.

There are limited policies in place (HRP and HRFE) related to fuel usage, however, there is no overall corporate fuel policy and therefore no documented corporate guidance for employees to follow when making fueling decisions. This lack of guidance is even more troubling considering the lack of accountability for fuel usage.

This disjointed management of fuel usage is only magnified by insufficient reporting and monitoring. Current reporting is at a summary level only which may not detect underlying errors. There is no detailed reporting and monitoring of miscellaneous card usage and no reporting of usage of commercial fuel cards to determine if they are being used economically. Even though reporting is a very important control in a properly designed fuel management process, the OAG also identified internal control deficiencies in all other areas of the equipment fuel management process including issuance of, cancellation of and access to fuel fobs/cards, access to fuel locations, system controls, overrides and reconciliations.

Fuel is a common product everyone uses. Statistics Canada has reported from 2006-2010, the median total income for the census Halifax metropolitan area has increased only 13%. When compared to the 59% increase in fuel prices, this places increased pressure on people to do more with less and increases the risk of misappropriation. There have been media reports of 'fuel and dash' where people fuel their vehicles at gas stations and leave without paying. This has led to some gas stations requiring people to pay before they fuel, especially at night.

Given fuel, in the current environment, has a high risk of theft, the OAG believes HRM has not been proactive in addressing the increasing risks around fuel management. Gas stations have recognized the need to address the risks; however, HRM has moved to a system of less accountability and control rather than more - a move which increases risks even further.

Summary of Recommendations

- 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. (Page 22)
- 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. (Page 22)
- 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. (Page 25)

- 2.0.2 Once the fuel fob/card use policy is developed, the OAG recommends the policy be communicated to all employees using fuel fobs/cards. This communication should specify when it is and is not appropriate to use HRM fuel fobs/cards. (Page 25)
- 2.0.3 The OAG further recommends supervisors be required to monitor adherence to policies and provide instruction for corrective action when necessary. (Page 25)
- 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. (Page 29)
- 3.0.2 The OAG recommends HRM Administration review the information uploaded to SAP to ensure detailed data, as suggested in Recommendation 3.0.1, is made available for reporting purposes. (Page 29)
- 3.0.3 The OAG recommends HRM Administration identify why bulk fuel receipts are not being received from fuel locations. As an alternative, Procurement should investigate obtaining the document electronically so fuel levels can be updated on a more timely basis. (Page 29)
- 3.0.4 The OAG recommends HRM Administration consider more timely inventory readings to identify possible reconciliation issues. (Page 30)
- 3.0.5 The OAG recommends HRM Administration require supervisors 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. (Page 30)
- 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. (Page 32)

- 3.1.2 The OAG recommends all supervisors track usage of the miscellaneous fobs/cards by unit so these transactions can be allocated to the correct unit and, if practical, action can be taken to decrease the practice of using miscellaneous cards. (Page 32)
- 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. (Page 32)
- 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. (Page 34)
- 3.2.2 The OAG recommends HRM Administration consider implementing the current purchasing card reconciliation process to commercial fuel cards to ensure supervisors are reviewing and approving fuel transactions. (Page 35)
- 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. (Page 38)
- 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. (Page 38)
- 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. (Page 38)

- 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. (Page 39)
- 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. (Page 40)
- 4.2.3 The OAG recommends a listing of deactivated or reassigned units should be provided to the Inventory Analyst on a regular basis to ensure the corresponding fuel fob/card has been deactivated or reassigned. As well, an exception report should be developed to identify inconsistent data fields between the fuel system and SAP. (Page 40)
- 4.3.1 The OAG recommends once a policy is in place around storage of fuel fobs/cards and PINs, supervisors should be required to ensure all fobs and cards are accounted for at the end of the shift and ensure they are securely stored. (Page 41)
- 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. (Page 41)
- 4.3.3 The OAG also recommends HRM Administration clarify whether commercial fuel cards are to be used for travel purposes. (Page 41)

- 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. (Page 42)
- 4.5.1 The OAG recommends HRM Administration require supervisors review consecutive fuel transactions to ensure all transactions are legitimate and are charged to the appropriate units. (Page 43)
- 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. (Page 44)
- 4.5.3 The OAG recommends HRM Administration fully investigate system integrity issues to ensure accurate information is being reported for fuel usage. (Page 44)
- 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. (Page 45)
- 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. (Page 45)

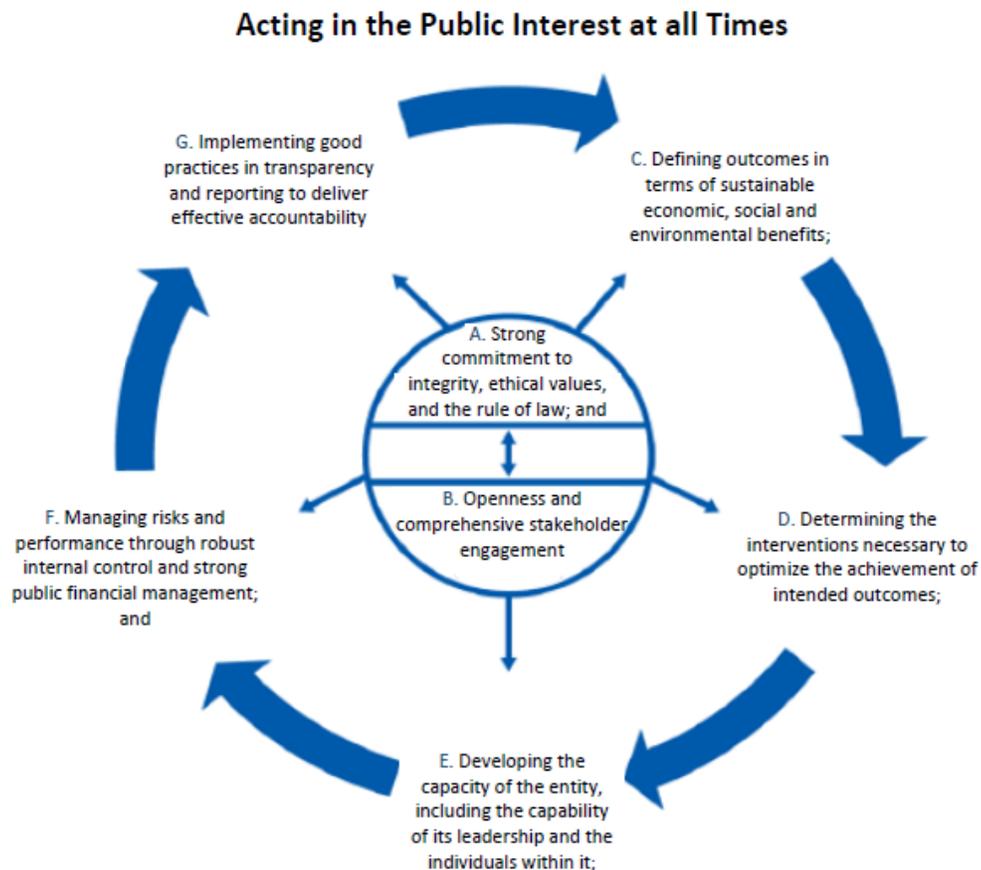
Detailed Findings and Recommendations

1.0 Governance of Equipment Fuel Program – Overarching Commentary

The OAG believes any process within HRM should follow an established framework to demonstrate good governance and performance management practices. The International Federation of Accountants has proposed an International Public Sector Governance Framework which identifies core principles of good governance in the Public Sector. The OAG believes this governance framework can be used for any HRM program.

The framework establishes “the function of good governance in the public sector is to ensure entities act in the public interest at all times”². The following figure demonstrates the relationships between the core principles required to ensure good governance.

Exhibit 3 – Relationships between the Principles of Good Governance in the Public Sector



² Good Governance in the Public Sector – Consultation Draft for an International Framework – International Federation of Accountants – June 2013 – Page 11

The International Federation of Accountants defines governance as “the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved”³.

The overall governing body at HRM would be Regional Council however, the Municipality has established various business segments and in essence delegated operation of the various programs to these business segments through the CAO.

The OAG believes, as does the International Federation of Accountants, governance is not something which exists only at the highest levels of an organization but something which flows through an organization at all levels – right down to the program level.

Stakeholder engagement is at the center of the above framework. At HRM, the largest stakeholder group would be the taxpayers and their greatest concern for any program at HRM would be whether the program is being delivered efficiently, effectively and economically and therefore, achieving value for money.

The OAG used the core principles from the above governance framework (Exhibit 3) to assess the governance of the HRM fuel program.

Defining Outcomes in Terms of Sustainable Economic, Social and Environmental Benefits

This report covers the equipment fuel program at HRM. Following the above framework, good governance should start with the core principle of defining outcomes of the program.

A very good place to document the purpose and intended outcomes of a program is in a corporate policy or program charter.

As will be detailed below, the OAG was not able to locate a corporate fuel policy or any program charter. The OAG understands the fuel program (process) was established with the intended purpose (outcome) of providing fuel to various pieces of equipment; however, getting fuel in a piece of equipment does not ensure it was completed efficiently or economically or the program was

³ Good Governance in the Public Sector – Consultation Draft for an International Framework – International Federation of Accountants – June 2013 – Page 8

completed as intended (was effective).

A clearly defined outcome would provide guidance around which equipment is to be fueled, where and by whom with consideration for efficiency and economy. Having a documented program or policy in place, with intended outcomes defined, would establish criteria against which the program can be assessed to determine if the program is effective.

Determining Interventions Necessary to Optimize the Achievement of Intended Outcomes

Even though there are no defined intended outcomes for the fuel program, the OAG believes there are mechanisms (interventions) in place to achieve certain outputs. One such intervention is the budgeting and planning for the fuel program. Prior to the 2012/13 Budget, the expenditure for equipment fuel was allocated to each individual business segment based on the assignment of the unit (vehicle, generator, etc.) using the fuel. This seems, to the OAG, to be a reasonable approach as it provides a level of accountability for the business segments using the fuel. This was discontinued in 2012/13 and now the Corporate Fleet and Equipment Division (Fleet Services) of TPW has the budget for all fuel used under this program and there is no allocation of costs to this or other business segments. FICT staff advised the reason for this change was because, in the past, “operational managers had difficulty getting real time clarity on what they were being charged for and why ...Rather than continue putting interdepartmental charges into the budget using historical data when we were moving to a new system of allocation, we decided to discontinue the current system of allocation.” This new system of allocation is not yet in place.

The OAG questions why a decision would be made to apparently eliminate all accountability at the business segment level.

As a result, in order to determine the full cost of any business segment within HRM (such as HRP, HRFE, etc.) the Municipality needs to combine expenditures coded to several business segments. This type of accounting appears to be inconsistent with the principles of accountability and transparency (discussed below). The OAG researched practices of other municipalities and determined the previous accounting treatment was more in line

with how other municipalities operate fuel management services. As well, Fleet Services is budgeting fuel based on usage trends which may not be consistent with programs being initiated or discontinued within a business segment. Therefore, the budget may not reflect needed adjustments resulting from the changing programs or the variances due to increased consumption may not be fully understood. For example, if HRP is considering a program requiring more vehicles travelling longer distances for the upcoming year, fuel costs may not be consistent with the previous trend, however, Fleet Services may not be aware of these intended programs. As well, when reviewing the costs of this new policing program, fuel costs may be missed because they are not within the specific business segment budget.

The OAG also questions whether the fuel program is being optimized. The program is functioning to provide an input (fuel to a piece of equipment) however, there is no evaluation of whether this process is optimal for HRM. Without continual monitoring and evaluation, the program continues to provide outputs and not outcomes. A culture of continuous improvement is instrumental to ensure the outcomes are optimized in an ever-changing world.

Developing the Capacity of the Entity, Including the Capability of its Leadership and the Individuals Within It

This principle tends to focus on the organizational design, and employees within this design, as the means for delivering the specific program. As mentioned earlier, in the case of the HRM fuel program, fuel processes are decentralized and fragmented (See Appendix A). Tasks within the fuel program are segregated amongst various areas as follows:

- monitoring fuel inventory, maintenance of HRM fuel pumps and distribution and cancellation of fuel fobs/cards is managed by Procurement,
- information from the fuel pumps of the electronic fuel system is uploaded to SAP by the Inventory Analyst in Procurement,
- once the information is in SAP, it is used by Fleet Services for summary-level reporting,
- the budget, expenditure and high-level reporting of fuel usage is managed by Fleet Services and

- business segments use fobs or cards to obtain fuel however, there is no required accountability for this fuel usage.

Even though there are distinct roles in the process, there does not appear to be centralized accountability of the entire process.

The OAG questions who is ultimately responsible and aware of all aspects of this program.

Managing Risks and Performance Through Robust Internal Controls and Strong Public Financial Management

As the OAG will demonstrate throughout this report, the principles of managing risks and performance are lacking in the equipment fuel program, which leads to questions of adequate overall governance of the fuel management system at HRM. This report will focus on areas of internal controls to demonstrate the weaknesses in this key principle of good governance.

Implementing Good Practices in Transparency and Reporting to Deliver Effective Accountability

The OAG has determined once fobs and cards are distributed to business segments by the Inventory Analyst, Procurement has no responsibility for how the fobs/cards are used.

The Manager of Fleet Services is required to sign off on the expenditure for fuel although this position has no control over the fuel usage.

There is currently no reporting of transactions to supervisors within the various business segments to review and authorize the usage of fuel. This lack of reporting results in the accountability for transactions not being documented and may not be fully understood by all.

The purchasing card system (corporate credit cards for purchasing low-dollar-value items) has a centralized control point in Procurement and anyone using a purchasing card is required to attach receipts to a statement, get a supervisor to sign off and forward the information to Procurement. The OAG questions why the commercial fuel card system does not have a similar reporting system in place.

Since there is no system of accountability, there appears to be a culture of 'get it done' versus managing with good governance in mind. Supervisors determine operational employees are fueling equipment to ensure operations continue, however, there is no management of the overall fuel process. It may appear, since Fleet provides limited high-level reports to senior management, they are responsible for fuel management however, they have no control over issuance and cancellation of cards, the information which ends up in SAP or assurance over fuel usage.

Recommendations:

- 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.

2.0 Equipment Fuel Program – Limited Policies and Procedures

Policies and procedures in an organization are used to provide guidance on controls and best practices for the organization to be able to achieve its goals and objectives, as well as to provide consistent practices among employees. Policies can be put in place for ensuring such things as employee safety and to ensure financial accuracy of information used to manage the organization.

At the beginning of this review, the OAG requested policies related to the equipment fuel program and found only two policies existed; one in HRFE for commercial fuel card purchases and one in HRP for fueling of police vehicles.

There are also procedures in the Fleet Services Manual providing general instruction for using fuel fobs at the pump (such as holding the fob against the reader, entering the odometer reading, holding the nozzle, what to do if there is a fuel spill, no smoking, no cell phone usage, etc.). As well, there are draft procedures in Procurement for uploading transactions from the pump information system and for ordering preventative maintenance services for the pumps. These procedures provide working instructions for particular situations but do not provide guidance for when to use fuel fobs or commercial fuel cards.

At the outset of this review, the OAG expected to find policy guidance with respect to (but not limited to) the following:

- proper authorization procedures for obtaining a fuel fob/card,
- clear communication to all employees regarding use of a fuel fob or card for the fueling of HRM vehicles only,
- requiring supervisors to review and approve fuel transactions,
- when use of a commercial fuel card is appropriate (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 statements be reconciled monthly.

During the review, the OAG noted several examples where clear

policies and monitoring of compliance to policies would aid in better controls over fuel.

For example, when reviewing transaction volumes by fob number, the OAG identified a miscellaneous fob at HRP being used to obtain an average of 500 litres of fuel per week during the review period.

When the data was analysed further, the OAG noted many of these transactions were around shift change times. The policy obtained from HRP indicated members are “responsible to fuel the police vehicle at the end of a shift” and “the assigned gas card is maintained within the police vehicle at all times”. It appears members are following the policy to fuel at the end of shift. However, the fuel card is not likely in the vehicle if the miscellaneous fob is being used. The Garage Supervisor indicated during a snow storm many members of HRP were required to come in and move vehicles because vehicle keys had been taken home. The Garage Supervisor also indicated fuel fobs are attached to key rings so the OAG concludes fuel fobs are likely being taken home by members which is not compliant to the HRP policy.

At HRP, commercial fuel cards are being used during out-of-province travel or travel outside HRM. This travel may be for training, attendance at funerals, suspect transfers, etc. The OAG sees this practice as another example of where full costing to business segments is not taking place given the present system. If the card is used for those purposes, full costs of these types of activities will not be accurately recorded within the business segment since fuel costs are part of the Fleet Services division in TPW. If these costs were recorded in another manner (such as on an expense reimbursement claim), the expenses would be recorded to the HRP business segment.

When discussing the use of commercial fuel cards with various business segments, the OAG came across a variety of business practices. At HRP, for ‘pool’ commercial fuel cards, receipts are turned in by the police member when the card is returned to the Financial Coordinator. He retains a sign-out log to keep track of who has which card. At HRFE, the policy instructs the various fire stations to compile the receipts and complete a summary form to be forwarded to the Emergency Fleet Garage. Knowledge of and application of the policy varies greatly. For example, some stations send in all receipts and some send the summary sheet for retention

at the Emergency Fleet Garage.

The common theme the OAG found is there is no requirement to reconcile the receipts to a monthly statement, have a supervisor sign off and then forward the information to a centralized location where all statements are reconciled to a summary billing statement which is then processed for payment.

It appears payments are made without anyone with knowledge of the transactions authorizing either the purchases or payments.

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.
- 2.0.2 Once the fuel fob/card use policy is developed, the OAG recommends the policy be communicated to all employees using fuel fobs/cards. This communication should specify when it is and is not appropriate to use HRM fuel fobs/cards.
- 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 Reporting Controls – Inadequate for Proper Management

In the world of good governance and performance management practices, reporting plays a key control. Reporting provides a means for the supervisory levels in an organization to review results and monitor activities happening at the operational level. If the reports are reviewed and approved, it also provides a means to demonstrate accountability. With the use of appropriate reports, organizations can monitor performance and initiate changes to operations. During this review, the OAG met with various supervisory-level employees to determine what type of reporting is available for fuel usage for both the HRM fuel system and commercial fuel cards. Detailed below are reporting deficiencies identified during the review.

Summary Reports May Contain Undetected Errors

The Manager, Corporate Fleet and Equipment provides reports to senior management of fuel usage at HRM. The reporting is of overall fuel usage and costs on a period by period basis as well as projections to the fiscal year end. This reporting includes all transactions from the HRM card lock system as well as transactions incurred at commercial locations using corporate fuel cards and is graphed and compared to the two previous years for reasonableness.

If the usage appears consistent with the previous two years, it is considered reasonable. However, the Manager has indicated there are adjustments being made to the SAP system data which are not being clearly detailed and explained by FICT employees responsible for the entries.

Also, since reporting is generally done at a summary level, inappropriate transactions may be happening which would not be detected.

The current reporting is purely focused on high-level variances to budget, not operational management. As a result, there is a risk invalid or fraudulent transactions can be masked in the summary data and miscellaneous transactions.

Therefore, since issues are not being flagged and corrected, inaccurate reporting is perpetuated.

Reporting by Unit Number May Contain Errors

The summary report provided to senior management can be supplemented by reporting by unit number.

However, reports by unit number are not routinely sent to the business segment due to inaccuracies in the information such as transactions charged to a miscellaneous fob instead of a specific unit number. This results in reported costs per unit being lower than actual costs, as the items charged to the miscellaneous fob are not reflected in the costs per unit.

Impact on Capital Acquisition and Disposal

The Manager has indicated the fuel usage information, along with kilometres driven and repairs and maintenance information, are used in vehicle-replacement decisions and fleet-sizing discussions. Therefore, the accuracy of this information is necessary for meaningful decision making.

Summary Reporting Includes ABCs

The summary reporting is separated by HRP, HRFE and Municipal Fleet. The summary Municipal Fleet reporting includes ABCs such as Halifax Public Library, Halifax Forum and Halifax Centennial Arena. These ABCs' cost of fuel is included in the Fleet Services expenditures. The OAG questions if this reporting is even meaningful if it is not specified which business segments and associated costs are included. The OAG did note, HRWC is billed monthly for fuel usage and not included in the Fleet Services expenditures.

No Unit Number Detail Available for Commercial Fuel Card Transactions

The summary reporting also includes transactions incurred at commercial stations where employees use commercial fuel cards to obtain fuel.

The information extracted from SAP originates from the commercial fuel card supplier, however all the available data is not recorded in SAP.

The SAP information includes where the fuel was purchased but not the unit number fueled. As a result, reporting of transactions by unit

number cannot be done using information from SAP.

The OAG requested detailed data from FICT, which was then obtained from the commercial fuel card supplier. This information is not readily available to Fleet Services and as a result, they are unable to accurately report usage by unit number.

Untimely Recording of Inventory Receipts Leads to Inaccurate Reports

Fleet Services has observed fluctuations in reported fuel usage. Upon further questioning of Procurement staff, the OAG determined these fluctuations were due to timing issues in recording receipt of bulk inventory into SAP. When bulk fuel is delivered to the fuel locations, there is a receiving document left at the fuel location. This receiving document is not always forwarded to the Inventory Analyst for entry against the purchase order. If the receipt is not entered on a timely basis, the inventory levels in SAP are not adjusted to reflect the higher inventory level. If there is not enough fuel inventory on hand in the inventory accounts to allocate to the various vehicles and vehicle groups, the detailed fuel transactional data from the fuel pumps cannot be uploaded to SAP.

Failure to Identify Root Cause of Errors in Inventory Reconciliations

The OAG was informed fuel inventory dip readings are being done on an annual basis for electronically-monitored fuel locations and on a monthly basis for locations not connected to computerized monitoring. If errors are identified, general accounting practice dictates reconciliations are to be done more frequently to detect possible causes (leakage, theft, receipt accuracy, etc.). Errors can typically be isolated easier if reconciliations are completed more frequently. Reconciliations can also be done more frequently using electronic readings to possibly identify issues.

Errors have arisen in the reconciliations, however, the source of the errors were not able to be detected. The OAG is concerned a control mechanism (reconciliations) detecting a problem is not being followed up to find the root cause of the problem and improve the process. Therefore, these are non-functioning controls.

No Regular Reporting of Inactive Fobs or Cards

There is currently no regular reporting of inactive fobs or cards to evaluate whether they are necessary.

Currently, the Inventory Analyst 'tries' to send out e-mails twice a year identifying fobs and cards which have not been used in six months to determine if they should be cancelled. These e-mails have a low response rate.

The Inventory Analyst does not feel she has the authority to cancel a fob or card until a request for cancellation is received from the business segment supervisor.

During the review, the OAG selected a sample of fobs/cards to test the physical controls around them. Of a sample of 47, one fob could not be located by the business segment responsible and had not been used in the past year. Two other fobs had not been used in the past three years.

After the OAG inquiries, the two business segments responsible for the fobs contacted the Inventory Analyst requesting the deactivation of the fobs. The OAG questions when this inactivity would have been identified.

If a fob/card is 'lost' and not cancelled, a miscellaneous fob can be used to obtain fuel and any transactions would not be assigned to the appropriate unit. Also, any inappropriate transaction(s) may not be detected. Until deactivated, the lost or inactive fob/card is available for misuse at any time. Since these fobs were not currently being used, this does not appear to have happened in these cases.

Recommendations:

- 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.
- 3.0.2 The OAG recommends HRM Administration review the information uploaded to SAP to ensure detailed data, as suggested in Recommendation 3.0.1, is made available for reporting purposes.
- 3.0.3 The OAG recommends HRM Administration identify why

bulk fuel receipts are not being received from fuel locations. As an alternative, Procurement should investigate obtaining the document electronically so fuel levels can be updated on a more timely basis.

3.0.4 The OAG recommends HRM Administration consider more timely inventory readings to identify possible reconciliation issues.

3.0.5 The OAG recommends HRM Administration require supervisors 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.

3.1 Reporting Applicable to HRM Fuel Fobs – Specific Accountability Issues

Although responsibility for fuel fobs is not explicitly stated in a policy or procedures, operationally it appears supervisors in various business units are responsible for managing the usage of fuel fobs. Depending on the business segment, supervisors maintain physical control over the fobs for their operational area.

Even though supervisors are responsible for usage of fobs, they do not receive any reporting of usage for a particular period of time to ensure fuel obtained using the fob was for operational purposes or was reasonable for the particular unit.

Interestingly, reporting by fob/unit is provided to HRWC and other external entities.

Supervisors are also not required to sign off a listing of transactions to document their accountability for those transactions. Even though the budget for fuel is in Fleet Services, the responsibility for usage is in the business segment. Since there is no reporting to the supervisors and no required approval, Fleet Services is responsible for a fuel budget but has no assurance around the accuracy or reasonableness (other than comparisons to previous years) of the expenditures. This lack of reporting increases the risk any misuse of the fobs will not be detected.

Currently, any analysis of fuel transactions is on an ad hoc basis. The Inventory Analyst uploads fuel transactions from the fuel system to SAP. During this process, the Analyst scans the fuel transactions and

may 'notice' something unusual which may prompt further analysis of the transactions.

Supervisors are the individuals most aware of operational aspects of their business segments and would therefore be able to detect unusual items if they were provided a listing of transactions on a regular basis.

For example, if a particular piece of equipment is typically used during a day shift, the supervisor would be able to identify an unusual fuel transaction which took place at 3:00 am or on a day of the week when the piece of equipment is not typically used. To make reporting even more exception-based and to aid the supervisor review, these 'normal' use patterns can be included in the system and exception reporting developed around them to clearly identify unusual transactions.

Use of Miscellaneous Fobs not Tracked

As noted previously, transactions are occurring using miscellaneous fobs (not tied to a unit or piece of equipment) and these transactions are not being tracked and reported to identify issues for corrective action.

Over the review period, about 3.7% of all transactions were made using miscellaneous fobs. The OAG estimates close to \$400,000 was spent on these transactions.

The OAG recognizes some of these fobs are being used to fill jerry cans to fuel multiple pieces of equipment such as generators or small engines and it may not be practical to assign usage to a particular piece of equipment. However, these transactions should be isolated and supervisors should be aware of the capacity of the jerry cans, how often they are being filled and if it is operationally reasonable. Since supervisors are not required to track the use of a miscellaneous fuel fob by transaction, potential problems with specific fuel fobs or employees are not being identified for corrective action.

Lack of Data for Exception-Based Reporting

In some cases, the specific data required for meaningful reporting is not available. For example, fuel tank sizes are not recorded in master files for each vehicle or piece of equipment operated by HRM.

Therefore, there is no way to do exception reporting of instances where the fuel volume was larger than the vehicle or piece of equipment could hold if it was empty when the fueling transaction took place.

Also, no thresholds (based on operational usage) are included in the system so any transactions outside of a threshold can be reported and investigated. For example, a piece of equipment could be used five days a week, run an expected number of kilometres, idle an accepted period of time and therefore an expected amount of fuel usage can be calculated. If more fuel than the threshold was used during a specified time period, exception reporting could identify these cases for more detailed analysis and corrective action.

This type of reporting is necessary if efficiencies are to be gained.

As well, there are pieces of equipment used seasonally such as lawn tractors or sidewalk plows.

If a fuel fob for this type of equipment was used 'out-of-season' this information is currently not being flagged for investigation.

The seasonality of certain pieces of equipment could also be included in the system and exception reporting built to identify unusual transactions.

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.
- 3.1.2 The OAG recommends all supervisors track usage of the miscellaneous fobs/cards by unit so these transactions can be allocated to the correct unit and, if practical, action can be taken to decrease the practice of using miscellaneous cards.
- 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 Reporting Applicable to Commercial Fuel Cards – Specific Accountability Issues

As indicated earlier, even though there is no corporate policy related to the use of commercial fuel cards, the OAG was informed, operationally, they are intended to be used for purchases outside the core HRM area where there are no HRM fuel locations. There is however, no reporting of the card usage by location, grade of fuel or activity.

Use of Commercial Fuel Cards not always Economical for HRM

Purchases using these cards are subject to the posted commercial station rates per litre however, fuel obtained from HRM fuel locations is at negotiated government purchase contract rates which are about 35% lower than posted commercial rates. Therefore, purchases using the commercial fuel cards are not the most economical for HRM if fuel could have been obtained at an HRM fuel location.

Since there is no reporting of these transactions, instances where these cards are used in areas where HRM fuel locations are also available are not being identified and as a result, corrective action cannot be taken.

During the review, the OAG conservatively estimated about 30% of the commercial card transactions from April 1, 2011 – December 31, 2013 were purchased in Halifax, Dartmouth or Bedford (based on purchase location) where there are HRM fuel locations. Hence the purchases were not being made with economy in mind and the value for taxpayer dollars is greatly reduced.

Increased Risk for Commercial Cards

As with HRM fuel fobs, there is also no requirement for supervisors to review and approve transactions using a commercial fuel card.

There is however a higher risk with commercial fuel cards because they can be used anywhere whereas the HRM fuel fobs can only be used at HRM locations. A non-HRM vehicle might be noticeable at a HRM fuel location however, any vehicle could use a HRM commercial fuel card at a commercial fuel pump and it would not be noticed.

As with HRM fuel fobs, supervisors are in the best position to know if the location or time of the purchase is appropriate or if the fuel grade purchased was necessary for the unit. The OAG realizes

premium grade fuel is required for some vehicles such as the motorcycles used by HRP however, since there is no reporting by fuel grade, there is no assurance premium grade is actually being used in units requiring this grade or if premium grade is being used unnecessarily in other units.

Controls Around Use of Corporate Purchasing Cards Are Not Applicable to Commercial Fuel Cards

There are few functional differences between commercial fuel cards and corporate purchasing cards. However, corporate purchasing cards have a detailed reconciliation and centralized accumulation process to ensure controls around the use of the cards. In the case of commercial fuel cards, supervisors are not reviewing or authorizing these purchases. There is no centralized accumulation of supervisor authorizations of transactions on a monthly basis as support for monthly purchases and no corporate policy governing appropriate use. Since there is no review and approval required, there is a risk misuse of these cards can be going undetected. As well, since there is no reporting by unit for use of these cards, unusual activity will not be detected.

As a result, the charges on the commercial fuel cards are paid without any review to confirm the charges are appropriate. In addition, there is no process currently in place to ensure these credit cards have not been compromised.

The OAG recognizes these cards are also being used by undercover Police operations and security of officers is required. In these cases, alternate controls should be in place so the detailed transactions need not be forwarded for central accumulation. For example, total monthly transactions with the supervisor approval could suffice in this limited circumstance.

Recommendations:

- 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.

3.2.2 The OAG recommends HRM Administration consider implementing the current purchasing card reconciliation process to commercial fuel cards to ensure supervisors are reviewing and approving fuel transactions.

4.0 Equipment Fuel Process Controls

In order to assess the systems and controls in place, the OAG first obtained an understanding of how the systems currently operate. Appendix A was developed by the OAG and depicts the fuel transactional process and responsibilities based, in part on, interviews with Procurement staff, Fleet Services staff and various supervisors. The OAG also determined, even though there are no documented corporate policies or procedures, there are distinct processes involved in managing the use of fuel fobs and cards. Each of these processes are reviewed in detail below.

4.1 Issuance of Fuel Fobs and Cards

Although there is no defined policy or procedure outlining how fuel fobs and commercial fuel cards should be issued, there is a general practice which exists. Currently, there is a 'Fuel Card Request' form which is submitted to the Inventory Analyst to request a fob or card be issued. The form indicates the unit and equipment ID the card is to be assigned to, the current odometer/machine hour reading and the cost center to which the charges are to be posted. The form also has an authorizing signature which should generally be a supervisor in the business segment requesting the card.

However, while the form is available and used by some, there are other times when it is not used.

Sometimes the employee requesting the fob or card will approach the Inventory Analyst directly, without an approved form to request the fob or card.

In these cases (usually a replacement fob), the Inventory Analyst provides the fob or card and follows up with the supervisor via e-mail to ensure the supervisor is aware of the request.

When a fob or card is activated in the fuel system, it can be either:

- Assigned to a specific piece of equipment,
- Identified as miscellaneous and assigned to a person or
- Identified as 'spare' and assigned to a person.

HRM Fuel Fobs

There are currently 1,146 active fuel fobs distributed across HRM's business segments. Of these, the OAG identified 20 active fuel fobs are assigned to the Police Garage Supervisor as 'spares'.

This is the only business segment which receives fobs in this manner.

The reason given for this exception was HRP 'loses' so many fuel fobs it is necessary to have that many active fobs on hand so there is no waiting to get replacement fobs. Between April 1, 2011 and September 19, 2012, HRP was issued 142 fuel fobs.

There are about 240 active fobs at any given time, for HRP, therefore presumably over half of the fobs had been replaced in the 18-month period. The OAG understands there was no substantial increase in the HRP fleet over this period.

The fobs assigned to the Police Garage Supervisor are identified as 'spare' in the fuel system and will not upload to SAP because there is no unit allocation included. When a spare fob is issued by the Police Garage Supervisor, notification is sent to the Inventory Analyst to assign the fob to a particular unit. If a spare is used without being attached to a unit in the fuel system, when the transactions are uploaded to SAP (generally weekly) the Inventory Analyst contacts the Police Garage Supervisor for a unit number to attach to the transaction and fob so the upload can go through to SAP.

While this flag does act as a reactive control for the spare fob usage, it does not prevent access to fuel, just the further processing of the transaction in the system.

The Police Garage Supervisor, who is responsible for requesting new fobs, also has access to the fuel pumps outside the garage, access to vehicles in the garage for maintenance and therefore access to the fob assigned to the unit.

This lack of segregation of duties is a significant control weakness.

Commercial Fuel Cards

Commercial fuel cards are requested using the same form as the fuel fobs. As mentioned above, there are currently 219 active cards distributed across HRM. The cards are received already activated from the issuing company.

A Personal Identification Number (PIN) is assigned by the issuing company (based on the vehicle identification number) and provided to the Inventory Analyst with the card. In the case of miscellaneous commercial fuel cards not assigned to a particular unit, the Inventory Analyst calls the customer service line of the issuing company and they generate a PIN for the card. The card and PIN are then given to the employee responsible for the card.

Recommendations:

- 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 Cancellation of Fuel Fobs and Cards

It appears to be the supervisor's responsibility to notify the Inventory Analyst if a fob or commercial fuel card is no longer needed or if it is lost or stolen. Requests to cancel a fuel fob or card are made using the same form as is used to request a card. The Inventory Analyst will not cancel a fob or card until a request is received from the supervisor. As a result, it is possible to have fobs and cards remain active even if the equipment has been removed from service.

During the completion of this review, the OAG selected a sample of

fobs and cards to determine their physical location. One fob was identified as being assigned to By-Law Enforcement in the fuel system however, the vehicle had been reassigned to Corporate Security in SAP and the fuel fob went with the vehicle. Since SAP is where the vehicle group allocation is done, it appears the correct vehicle group was receiving the fuel costs. However, this is indicative of changes made in the fuel system not being reviewed to ensure the accuracy and synchronization of the two systems. The Inventory Analyst indicated she tries to do this manually on a monthly basis since an exception report is not available to identify cases where the two systems are not in sync. This inefficient and ineffective process has led to inconsistent data. The OAG questions how many more of these instances exist.

During the review, the OAG identified 19 (9%) commercial fuel cards and 53 (5%) fuel fobs (19 'spares') had not been used between April 2011 and December 2013.

There is a risk a fob/card could be accessed and used inappropriately. As indicated earlier, if fob/card activity is not being reviewed and monitored by supervisors on a regular basis, this use may not be detected.

The OAG also identified three (6%) instances in a sample of 47 where the fobs or cards could not be located. Once the OAG asked staff, it was determined the fobs and cards had not been used in the past 1-3 years and they were subsequently cancelled.

The OAG questions if this would have been identified if the fobs/cards were not part of the OAG sample.

If this sample was extrapolated over the approximately 1,300 fobs and cards in circulation, this could mean close to 80 fobs or cards are active but cannot be located.

Based on the number of fobs and cards currently activated, this could mean one in every four employees at HRM has access to a fuel fob or card.

Recommendations:

- 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.
- 4.2.3 The OAG recommends a listing of deactivated or reassigned units should be provided to the Inventory Analyst on a regular basis to ensure the corresponding fuel fob/card has been deactivated or reassigned. As well, an exception report should be developed to identify inconsistent data fields between the fuel system and SAP.

4.3 Access to Fuel Fobs and Cards

The distribution and storage of fuel fobs and cards varies by business segment and there is no generally accepted business practice. In some business segments, equipment keys, with fobs attached, are hung on a key board in the supervisors' office and the supervisor is responsible for distributing the keys and fobs to employees during the shift. In other business segments, keys and fobs are kept by the employee who typically uses the vehicle operationally. The OAG was informed, in these cases, the keys and fobs are supposed to be locked in an office during off-hours. However, with no policy in place requiring this and no one monitoring compliance, there is no way to ensure this is happening.

Therefore, the one consistency is the keys and fobs are not securely stored.

The OAG did note the active 'spare' fobs provided to the Police Garage Supervisor are kept unsecured in the supervisor's office. The office is not locked during the day however, access to the garage is restricted.

In the case of commercial fuel cards, inconsistencies also exist. HRFE indicated cards are kept in the fire truck or unit and PIN numbers are kept with the cards since multiple employees need access to the fuel card.

Of the cards assigned to HRP, 10 are issued to senior management on a permanent basis and 10 are held by the Financial Coordinator as 'pool' cards and can be issued to members on a temporary basis. These cards are generally used for travel purposes. The 'pool' cards are securely stored by the Financial Coordinator who keeps a sign-out log. Members are required to sign when they take possession of the card.

PIN numbers are printed on the back of the card since there are multiple employees needing access to these cards as well. Storing the PIN with the card leaves the card open to misuse.

There is also a higher risk of these cards being compromised since they can be used at any fuel station. The OAG also questions why these cards are used for travel or if the travel policy should apply instead.

Recommendations:

- 4.3.1 The OAG recommends once a policy is in place around storage of fuel fobs/cards and PINs, supervisors should be required to ensure all fobs and cards are accounted for at the end of the shift and ensure they are securely stored.
- 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.
- 4.3.3 The OAG also recommends HRM Administration clarify whether commercial fuel cards are to be used for travel purposes.

4.4 Access to Fuel Locations and Pumps

Some fuel locations have better physical controls than others. One facility has restricted gate access and camera monitoring which would allow for facial recognition. Some locations have camera monitoring without the ability to provide facial recognition and gates which are open on weekdays but closed on weekends. Some areas have a tank with a lock and no specific monitoring.

Corporate Security does not have a complete list of the fuel tanks, locations and security measures currently in place. The division is concerned about physical access since poor camera coverage and open access are known facts around HRM and could be easily taken advantage of not only for theft but also vandalism or compromising employee safety.

Corporate Security acknowledges the systems required to bring security levels to a consistent level are costly, however they are working on improving camera systems and should have improved systems for some of the larger locations included in the current budget.

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 System Controls over Fuel Fobs and Cards

When an employee uses a fuel fob to obtain fuel, the current odometer reading is required to be entered before the pump will start to dispense fuel. The odometer reading must be higher than the previous entry and within a certain number of kilometres. If an inconsistent odometer reading is entered, the employee must re-enter the number. After three unsuccessful tries the system locks and the employee requires assistance from the supervisor or Inventory Analyst to obtain fuel.

In some cases the supervisor provides a miscellaneous fob to obtain fuel. Odometer readings are not required for miscellaneous fobs nor are the readings tracked manually.

An employee could use a miscellaneous fob to fraudulently obtain fuel since there is no tracking of miscellaneous fob usage to allocate the transactions back to the specific unit.

There is a dispensing limit of 250 litres for diesel and 110 litres for gas per transaction for the HRM fuel fob. However, multiple consecutive transactions are allowed.

Therefore, if a fuel fob was used consecutively for multiple vehicles or a larger vehicle, these transactions would be allowed as long as the odometer entry was adjusted. Some requirements have been adjusted because of the size of the fuel tanks but multiple transactions are not monitored to detect any unusual transactions.

A fuel transaction could be for more fuel than the equipment can physically hold but the system would not flag this as an unusual transaction. As well, acceptable thresholds are not recorded (such as miles per gallon/kilometres per litre) so exceptions can be reviewed for reasonableness.

The OAG was told a unit number can only ever have one fuel fob/card number assigned to it in the fuel system and a fuel fob/card number can only be assigned to one unit. Old or lost fuel fobs/cards assigned to unit numbers must be cancelled first before a new fob/card can be activated. System controls also exist to ensure one piece of equipment can be assigned to only one equipment number in SAP.

However, the Fleet Coordinator has identified a case where two pieces of equipment were assigned to the same equipment number in SAP.

This system integrity issue may result in inaccurate reporting of fuel usage if two unit numbers are posting to the same equipment number. If so, the integrity of fuel reporting may be at risk. This issue has been reported to FICT for investigation.

It is interesting to note there was little action taken for over eight months to resolve this issue initially but once FICT was advised it had been noted as part of the OAG's review, significant activity began. The OAG questions the timing of the activity by FICT and is concerned by this lack of timely response to the issue.

Recommendations:

- 4.5.1 The OAG recommends HRM Administration require supervisors review consecutive fuel transactions to ensure all transactions are legitimate and are charged to the appropriate units.

- 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 Overrides of the System

As indicated above, if a fuel fob is locked out of the system due to entering an incorrect odometer reading, the employee can contact their supervisor who can provide them with a miscellaneous fob or they can contact the fuel help line which is connected to the Inventory Analyst.

The Inventory Analyst has access to two override codes (one for diesel and one for gas) which can be issued over the phone for fuel to be dispensed.

These override codes do not have a cost centre attached to them in the SAP system so transactions will not be posted in the system unless a manual correction is posted by the Inventory Analyst.

The Inventory Analyst has a separate manual process if the override code is used in order for the transaction to be posted. The Analyst manually records the unit number requesting fuel, the odometer reading and sometimes the license plate number.

This information is not entered into the system until the Inventory Analyst performs the upload of fuel transactions to SAP from the fuel system. At this time there may have been several instances where an override code had been used. The Inventory Analyst must identify all transactions related to the override code and then change the information in the system with the information from the manual records so the fuel transactions can be processed and allocated to the correct cost centre.

There is no analysis completed on how often the override codes are used and whether there is any pattern by unit, employee or supervisor obtaining fuel at the time of override.

Recommendations:

- 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 Reconciliations

Commercial fuel cards used by HRM are like any credit card. When the card is used, the user receives a receipt for the transaction. As well, there is a monthly statement listing all of the transactions. Unlike the corporate purchasing cards, there is no requirement for anyone to ensure all receipts are compiled and reconciled with the statement, have the reconciliation reviewed and approved by the supervisor, forwarded to a central location and balanced to the summary statement for the month.

Since this process does not exist, the monthly statement may include invalid or unusual transactions that may not be detected.

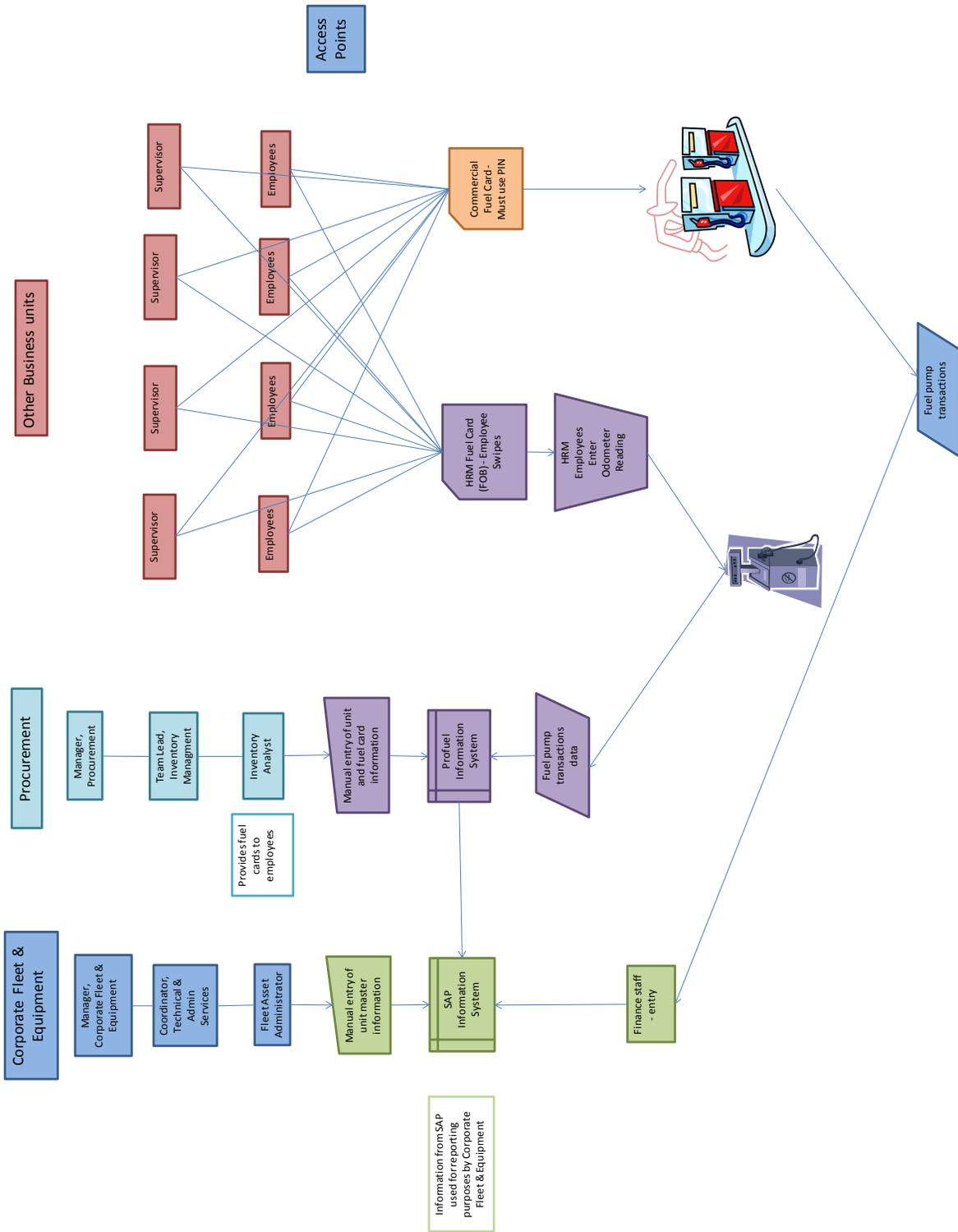
In October 2011, unusual transactions in Ontario were identified on a commercial fuel card. The card had been compromised and HRM did not pay these charges. FICT staff review the commercial fuel card billing for all out-of-province transactions. Any out-of-province transactions are verified with the specific business segment to ensure they had staff in the area at the time of the transactions. The OAG asked staff if these transactions had happened in Nova Scotia would they have been identified and were advised no. This lack of control and oversight is extremely concerning to the OAG.

The OAG also questions what review processes are currently in place to ensure the transactions are legitimate on an on-going basis.

Recommendations:

- 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.

Appendix A – Fuel Transactional and Information Structure



Appendix B – Management Response



RICHARD BUTTS
CHIEF ADMINISTRATIVE OFFICER

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:

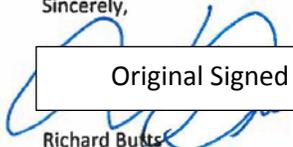
I have read the report, *A Performance Review of HRM's Equipment Fuel Program* submitted to me on August 18, 2014 by your office. I am in general agreement with its content and the overall direction proposed. As with all reports that your office has completed, HRM Administration will take the recommendations 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 Butts
Chief Administrative Officer

HALIFAX

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