



CITY AUDITOR'S OFFICE

To: Honorable Mayor and Council Members

Cc: Peter Zanoni, City Manager
Constance Sanchez, Chief Financial Officer
Jim Davis, Director Asset Management

From: Kimberly L. Houston, Interim City Auditor 

Date: April 7, 2020

Subject: AU18-F04 Fleet Maintenance Department, Allocations and Fuel Billing Follow-Up Report

As part of our annual audit plan we conducted a follow-up of the AU17-002 Fleet Maintenance Department, Allocations and Fuel Billing audit dated July 10, 2017. The objective of the original audit was to determine if fleet fuel expenses were being appropriately budgeted and allocated to departments. The report concluded fleet fuel expenses are not appropriately budgeted, and allocation methodologies can be improved.

The original report made seven recommendations for improvement over five areas to City executive and department management. The five areas included: greater accuracy over budgeting fuel expenses, requiring all city departments to develop budget more aligned with prior outcomes, combing for fuel transaction activity into the same Infor organization number, developing policy over creation and use of accounting strings, implementing a more equitable fleet allocation system.

Management accepted the recommendations from the original report and agreed to make appropriate changes in their processes and instructions.

On December 17, 2019 management indicated two of seven recommendations have been implemented. We reviewed information submitted and concur with management's assertions. Considering change in City management, Audit will follow-up the remaining five recommendations at a later period. A complete list of recommendations and current statuses can be seen on page 2. Additional information on all recommendations can be found in appendix A.

Management agrees (see appendix B) with the conclusions of this report, and we would like to commend them for their assistance during this process.

**AU18-F04 FLEET MAINTENANCE DEPARTMENT,
FUEL ALLOCATIONS AND BILLING FOLLOW-UP REPORT**

Issue No.	Recommendation/Corrective Action Plan	Management Assertion	Status
A. Over Budgeted Cost of Goods (COGS) Fuel Expense			
A.1	Has Fleet Management developed budgets that are close to the actual (budget) outcome?	<i>Implemented</i>	<i>Implemented</i>
A.2 - 1	Has City management required departments to create budgets that have clear comparison between expenditures included in the proposed budget and actual expenditures?	<i>Implemented</i>	<i>Implemented</i>
A.2 - 2	Has City management added performance measures to the Budget Department related to accuracy in estimating expenditures?	<i>Not Implemented</i>	<i>Did Not Review</i>
B. Allocation of Fuel Expenses			See Issue A
C. Expense Recovery through Repair Allocation and Fuel Mark - Up			
1	Has Fleet Management developed another mission element to identify the actual cost of its fueling function?	<i>Partially Implemented</i>	<i>Did Not Review</i>
D. Service Station Revenue Incorrectly Classified			
D.1	Has Fleet Management requested that fuel sales be posted into Org 40140 Service Station instead of Org. 40170 Fleet Operations?	<i>Not Implemented</i>	<i>Did Not Review</i>
D.2	Has City Management developed a policy for the creation and use of funds, organizational units, and mission elements?	<i>Not Implemented</i>	<i>Did Not Review</i>
E. Fleet Repair Allocations-Other Matters			
1	Has Fleet Management implemented allocation methodology recommendations made in the 2011 competitive assessment conducted by Mercury Associates Inc.?	<i>Partially Implemented</i>	<i>Did Not Review</i>

Legend:	
[Issue No.]	City Executive management recommendations
<i>Did not review</i>	Testwork was not conducted.

Staff Acknowledgement:
Brianna Annas, Auditor-in-charge

APPENDIX A – SUMMARY OF RECOMMENDATIONS

A. Over Budgeted Fuel Expenses [Cost of Goods (COGS)]

During the original audit, we found fuel expenditures were routinely budgeted more than actual cost. Although this practice was a precaution to accommodate fluctuations in fuel prices, City budget policy allows for 3% of annual appropriation to be set aside for unforeseen circumstances such as this. Exhibit 1 shows the fuel budget to actual costs during the original audit scope (FY2015-FY2017).

Exhibit 1 Fuel budget to actual costs for the period of FY2015-FY2017

3-Year Fuel Expenditures FY2015-FY2017				
Fiscal Year	Adopted Budget ¹	Amended Budget	Expenditures ²	% Budget Utilized
2017	5,950,519	5,950,519	2,631,797	44%
2016	5,950,519	5,943,019	2,241,322	38%
2015	5,950,519	5,224,819	2,850,135	55%

Source: Amended budgets for FY2015-FY2017 are from the FY2016-FY2018 Adopted Operating and Capital Budget books and Infor Financials, respectively.

During follow-up review, we found the budget for fuel better aligned with actual cost; however, management intends to make further improvements. Exhibit 2 shows the fuel budget to actual costs for the 3-year period of FY2018-FY2020.

Exhibit 2 Fuel budget-to-actual for the periods of FY2018-FY2020

3-Year Fuel Expenditures FY2018-FY2020				
Fiscal Year	Adopted Budget ¹	Amended Budget	Expenditures ²	% Budget Utilized
2020	4,000,000	4,000,000	1,933,050	48%
2019	4,000,000	4,000,000	2,783,650	70%
2018	3,000,000	3,000,000	2,876,438	96%

Source: Amended budgets for FY2018-FY2019 are from the FY2019-FY2020 Adopted Operating and Capital Budget books. FY2019-FY2020 are unaudited Infor Financials. Expenditures for FY2020 are normalized.

Recommendation(s):

A.1 Develop budgets that come as close as possible to the actual outcome.

Management's Assertion: *Implemented*

Audit Status: *Implemented*

¹ FY2015-FY2020 Adopted Operating and Capital Budget books

² FY2015-FY2018 Comprehensive Annual Financial Reports. Expenditures are rolled into revenue line item "Charges for services".

A.2-1 Require all departments to create budgets based on historical actuals plus add performance measures related to accuracy in estimating expenditures.

We found no written policy; however, within the Infor budget module and budget training manual, a 3-year history of actual cost is available for departments to utilize. Although Budget recommends a 3-year average budget basis, management has the discretion to adjust as deemed appropriate.

Management's Assertion: *Implemented*

Audit Status: *Implemented*

A.2-2 Add budget policy performance measures related to accuracy in estimating expenditures.

Management's Assertion: *Not Implemented*

Audit Status: *Did Not Review*

B. Allocation of Fuel Expenses (see Issue A)

C. Expense Recovery through Repair Allocation and Fuel Mark-up

Cost of service for the fueling function is combined between Org. 40170 Fleet Operations and Org. 40140 Service Station making it difficult to determine if Fleet is recovering all fuel costs appropriately through the Fleet Repair Allocation.

Recommendation(s):

Create a mission element to identify the actual cost of the fueling function.

City management plans to move away from the use of mission elements, but plans to transition towards classifying fuel activity within the same organizational numbers. This is discussed further in issue D.

Management's Assertion: *Partially Implemented*

Audit Status: *Did Not Review*

D. Service Station Revenue Incorrectly Classified

Fuel sales revenue is posted to Org. 40170 Fleet Operations rather than Org. 40140 Service Station. This resulted in revenue and related expenses posting to different organizational units.

Recommendation(s):

D.1 Improve the transparency of Fleet operations by posting fuel revenue into Org. 40140 Service Station.

Management intends to work with IT on an interface between M5, fueling system, and Infor Financial system to post revenue to appropriate accounts.

Management's Assertion: *Not Implemented*

Audit Status: *Did Not Review*

D.2 Develop a policy for the creation and use of funds, organizational units, and mission elements.

Once the Finance Director position is permanently filled, staff will be directed to work on developing such a policy.

Management's Assertion: *Not Implemented*

Audit Status: *Did Not Review*

E. Other Matters - Fleet Repair Allocations

No written guidelines were found on the methodology of the Fleet Repair Allocation. It was noted fleet allocations are not equitably distributed across City departments. (ex. garbage truck unit cost allocation is equivalent to police cruiser)

Recommendation(s):

Improve allocation methodology by implementing recommendations of the 2011 competitive assessment conducted by Mercury Associates, Inc. as it relates to vehicle unit allocations. This assessment recommended implementation of “a cost-charge back system for all customers to improve cost recognition, control equity and to send consistent price signals that link fleet user behavior with costs.”

Management's Assertion: *Partially Implemented*

Audit Status: *Did Not Review*

APPENDIX B – MANAGER'S RESPONSE

March 16, 2020

Kimberly Houston
Interim City Auditor
Corpus Christi, Texas

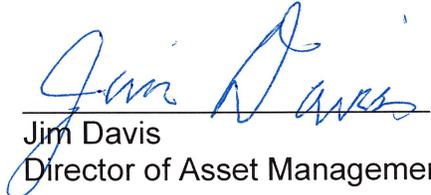
Re: AU18-F04 Fleet Maintenance Dept., Allocations and Fuel Billing Follow-up Report

Fleet Maintenance has reviewed the follow-up report and provided its comments below. As there are no recommendations for management, no responses are required.

Fully Agree

Do Not Agree

Sincerely,



Jim Davis
Director of Asset Management

3-16-2020
Date



Constance Sanchez
Chief Financial Officer

3-16-2020
Date



Peter Zanoni
City Manager

4/3/2020
Date