

EXECUTIVE SUMMARY
AUDIT OF INTERNAL CONTROLS FOR RECEIPTS AND DISBURSEMENTS OF FUEL

INTRODUCTION

Internal Audit conducted an operational audit of internal controls for receipts and disbursements of diesel fuel and gasoline. Port Authority's contracts in effect in 2009 specified approximately 8.3 million gallons of diesel fuel annually and 530,000 gallons of gasoline bi-annually. In fiscal year 2009, Port Authority spent approximately \$22 million for diesel fuel and \$428,000 for gasoline. Diesel fuel is one of Port Authority's largest non-labor cost elements. Fuel costs are projected to increase based on market conditions and increasing global demand. Port Authority has reduced its annual diesel fuel requirements from 9,772,022 gallons in fiscal year 2005 to 8,728,435 gallons in fiscal year 2009, a decrease of 1,043,587 gallons (10.68%). Some of this decrease is attributable to a service cut in fiscal year 2007 and some of it is attributable to operational efficiencies such as reduced idling time for buses.

STATEMENT OF AUDIT OPINION

In our opinion, in general, the fuel that Port Authority purchases is being used in support of its operations. **The correlation between a calculation of diesel fuel required to provide the service delivered in fiscal year 2009 and the fuel actually purchased is 99.14%. Adding diesel fuel requirements for nonrevenue vehicles would result in an even higher correlation. This correlation supports the conclusion that, in general, fuel is not being used for unauthorized purposes.** In addition, Port Authority has a good working relationship with its fuel vendors. They are responsive to Port Authority's needs and they maintain fuel levels consistently so that Port Authority is not in jeopardy of failing to meet its service obligations due to lack of fuel. However, opportunities to improve business processes and internal controls for fuel exist and recommendations are summarized below.

RECOMMENDATIONS FOR IMPROVEMENT WITH MANAGEMENT CONCURRENCE

- 1) The fuel delivery truck driver works with no supervision from Port Authority to enter the property, stake the storage tanks and transfer the fuel to the storage tanks. The fuel delivery truck driver then takes the bill of lading to the foremen's office and obtains a signature from a foreman or maintenance clerk. No one verifies that the amount of fuel as stated on the bill of lading agrees with the amount recorded in the Veeder Root storage tank monitoring system.
 - We recommend that a Port Authority employee print the Veeder Root Inventory Increase Report to verify the amount of fuel on the bill of lading before signing it.
 - The bus operations officer agrees and has implemented the practice of verifying fuel deliveries at the bus operating locations. The rail operations/engineering officer believes that the risk of theft of fuel is small for his division's limited use of diesel fuel and gasoline. However, the rail operations/engineering officer agrees to direct his supervisors to ensure that the delivery truck driver prints the Veeder Root Inventory Report and attaches it to the bill of lading so that supervisors can review and verify stated delivery quantities prior to signing the bill of lading.

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- 2) We tested 156 invoice payments and found 46 instances where the incorrect price was paid resulting in potential underpayments of approximately \$50,000 and 11 instances where we were unable to determine the price that should have been used on the invoice due to uncertainty regarding the date upon which to switch from the fixed price to the market price. This \$50,000 represents approximately 0.23% of Port Authority's \$22 million expenditure for diesel fuel. Port Authority purchases a predetermined amount of fuel each month at a fixed price. If this amount is exceeded, any excess fuel purchased for the month is priced at market rates for the remainder of the month. Because no Port Authority employee monitors gallons of fuel delivered to all locations, Port Authority cannot verify that the date provided by the vendor to switch from fixed prices to market prices is correct and it cannot verify that the prices on the invoices are correct. PeopleSoft defaults to the contract price for payment of fuel invoices unless an accounting assistant modifies it.
- We recommended that invoice prices and quantities should be verified before the invoice is paid.
 - Stores Department employees at each operating location are now entering the receiving information for fuel deliveries into the PeopleSoft financial system against existing purchase orders. This step enables employees in the Accounts Payable Department to verify invoice quantities and track fuel deliveries so that invoice prices can be verified using a pricing schedule that is now being provided by the Purchasing and Materials Management Department.
- 3) We observed that access ports for underground storage tanks, backup generators and some outside gasoline pumps were not locked. Also, some access ports for underground storage tanks are not color coded and labeled.
- We recommend that these access ports and pumps should be locked. Access ports on underground storage tanks should be color coded and labeled.
 - Management concurs. With the exception of the access port at the West Mifflin operating location, the access ports for underground storage tanks and outside gasoline pumps are now locked, color coded and labeled. The target date for locking the access port at West Mifflin operating location is July 31, 2010.
- 4) The process for tracking fuel disbursements is labor intensive, therefore, it is prone to inefficiency, errors in recording the data and a risk of not capturing all of the data on fuel usage due to employees neglecting to record each instance of disbursement. The full report contains process flows that show opportunities in the process to strengthen internal controls over fuel receipts and disbursements.
- The business processes can be streamlined and the accuracy of data can be improved by implementing an automated fuel management system. The primary benefits of such a system are the automatic recording of each instance of fuel disbursement and availability of reports summarizing fuel disbursements which can be used to complete fuel reconciliations.

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- In response to our recommendation, the bus operations officer and the rail operations/engineering officer will consider including an automated fuel management module as part of the planned work order system implementation. The work order system is in the capital budget for fiscal year 2011.

RECOMMENDATIONS FOR IMPROVEMENT WITH MANAGEMENT'S PARTIAL CONCURRENCE OR NONCONCURRENCE

- 1) We observed that records of fuel used for nonrevenue vehicles, small equipment, generators and gas containers are not being kept, fuel reconciliations are only being partially completed and discrepancies were not resolved.
 - We recommend that the fuel reconciliations should be completed properly and discrepancies above an established amount should be resolved. Gasoline Usage Reports should be completed to record each instance of fuel disbursed so that fuel reconciliations can be completed.
 - The bus operations officer has reinstated this process to strengthen internal controls over the vast majority of diesel fuel disbursements and approximately half of the gasoline disbursements. However, he is still working with employees in the Police Department and the Road Operations Department to adopt the practice of completing Gasoline Usage Reports consistently. The rail operations/engineering officer believes that reinstating a manual practice and procedure for reconciling fuel is unnecessary and overly burdensome since the risk of theft is low, particularly for small equipment utilizing small quantities of fuel (i.e., a five gallon gas can). However, the rail operations/engineering officer would be amenable to electronically conducting fuel reconciliations as a component of an overall automated fuel management module being considered as part of the planned work order system implementation. The work order system is currently in the capital budget for fiscal year 2011.
 - Internal Audit believes that the reconciliations should be completed effective immediately.
- 2) Employees are responsible for filling the fuel tanks of the nonrevenue vehicles that they drive. Records of fuel used are not consistently kept and no one monitors miles per gallon for non-revenue vehicles, therefore, theft of fuel will not be detected.
 - We recommended that a report showing non-revenue vehicles for each location and their miles per gallon should be created. Non-revenue vehicles with low miles per gallon should be flagged for follow-up.
 - The rail operations/engineering officer believes that instituting a manual practice and procedure for tracking miles per gallon for non-revenue vehicles is unnecessary and overly burdensome since the risk of theft is low, particularly for his division that he believes utilizes a small percentage of

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gasoline in relation to Authority's overall fuel usage. However, the rail operations/engineering officer would be amenable to electronically tracking and generating miles per gallon reports for non-revenue vehicles as a component of an overall automated fuel management module being considered as part of the planned work order system implementation. The work order system is currently in the capital budget for fiscal year 2011.

- 3) We noted that the fueling procedures are not consistently implemented at many of the operating locations. Maintenance foremen sometimes work at a location other than their regularly assigned location. They need to be able to ensure that the correct processes are being followed for fuel deliveries and disbursements at all operating locations. Processes that are consistent across all locations are necessary to ensure that fuel is being received and dispensed properly. Inconsistent processes create weaknesses in the internal controls over fuel inventories as well as inaccuracies in the data produced through the processes. Port Authority is not able to ensure that it is receiving all of the fuel for which it is paying and it is not able to account for the usage of fuel. Therefore, its exposure to the risks of fraud and theft of fuel are much higher than it would be if the processes for fuel receipts and disbursements are consistent across all operating locations.
- We recommend that employees in the Bus Maintenance Support Department develop and implement procedures for receipts and disbursements of fuel that are consistent across all operating locations.
 - The bus operations officer concurs with Internal Audit's recommendation that a policy and procedures for the fuel process should be drafted and enforced. The rail operations/engineering officer would concur with Internal Audit's recommendation to the extent that it is part of an underlying policy and procedure for the overall implementation of an automated fuel management module/system. The rail operations/engineering officer would not support a policy or procedures that would re-implement or otherwise create new manual tracking or reporting responsibilities for supervisors since he perceives that there is a low risk of theft for his division's limited use of fuel versus the increased administrative burden and high risk of human error that utilizing a manual fuel tracking system would entail.

In addition, we made recommendations to:

- Expand fuel testing to the South Hills Junction operating location,
- Install anti-siphoning devices for nonrevenue vehicles,
- Develop standardized records retention guidelines for all fuel records,
- Add security cameras to improve safeguarding of fuel,
- Reduce fuel stored at the South Hills Village location or remove the fuel storage tank.