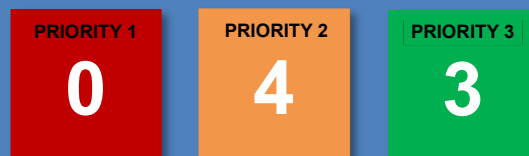


Report #2024-03

FUEL PURCHASE CONTRACT AUDIT

NUMBER OF RECOMMENDATIONS



*City of Glendale
Internal Audit*

12.29.2023



Contents:

A. Overview..... 3

B. Action Plan and Target Completion Dates..... 4

C. Background 4

D. Objective, Scope and Methodology 6

E. Observations, Recommendations, & Management Responses Matrix..... 7

Appendix 1: Definitions of Priority Rankings and Value-Added Categories..... 11

Distribution List:

For action: Michael Lunsford, Fleet Compliance Manager
Sevada Hambarsumian, Mechanical Maintenance Superintendent
Veronika Padron, Risk and Insurance Services Analyst

For information: Jason Bradford, Director of Finance/Information Technology
Yazdan Emrani, Director of Public Works
Michael Garcia, City Attorney
Roubik Golanian, City Manager
Ann Maurer, Chief Assistant City Attorney
John Takhtalian, Assistant City Manager
Kevin Todd, Assistant Director of Public Works
Audit Committee
City Council

Acknowledgment

We would like to thank staff from the Public Works Department and the City Attorney’s Office for the support and assistance provided throughout this project.

For questions regarding the contents of this report, please contact the lead auditor, Ani Antanesyan, Sr. Internal Auditor, or Jessie Zhang, Internal Audit Manager at InternalAudit@glendaleca.gov

This report is also available online at <https://www.glendaleca.gov>

A. Overview

Key Outcomes

The City of Glendale’s Public Works Department (PWD) administers the fuel purchase contract to provide the City with bulk gasoline and diesel fuel for its fleet. Internal Audit reviewed the fuel purchase contract, internal policies and procedures, performed research on the various taxes on the fuel invoices, and conducted detailed testwork on sampled invoices. Internal Audit found that although generally the contract is in compliance with most of the terms, there are improvement opportunities in the following areas to ensure that: 1) City staff are monitoring invoiced and delivered fuel discrepancies, 2) Invoice support contains City staff acknowledgement of fuel delivery, 3) City and Vendor responsibilities related to oil spills are acknowledged and documented, 4) Vendor has appropriate insurance documentation, 5) Vendor provides contractually mandated reports to the City, 6) City independently verifies fuel prices through the price source, and 7) City staff periodically test fuel quality.

Impact Dashboard

This table summarizes the applicable value-added categories (total 15) for the seven recommendations based on their priority rankings.¹

	Value Added Categories			
	Compliance	Cost Saving	Efficiency	Risk Reduction
Priority 1 0	0	0	0	0
Priority 2 4	4	0	1	4
Priority 3 3	2	0	1	3

¹ Each audit recommendation may have more than one value-added category. The Definitions of Priority Rankings and Value-Added Categories are located at Appendix 1.

B. Action Plan and Target Completion Dates

The action plan and target completion dates are summarized in the table below. Internal Audit will perform quarterly status follow-up to provide assurance that management is taking appropriate and timely corrective action to address audit recommendations.

Ref.	Management Action Plan	Completion Date
Priority 2		
1.	Ensure that either fuel delivery policies are followed or use system report to validate invoiced against delivered fuel amounts and monitor fuel delivery discrepancies. <i>Value added: Compliance, Efficiency, Risk Reduction</i>	06/30/2024
2.	Ensure that invoice support contains City staff acknowledgement of fuel delivery. <i>Value added: Compliance, Risk Reduction</i>	06/30/2024
3.	Document City’s responsibilities related to fuel spills and obtain Vendor’s hazardous waste spills and emergency procedure. <i>Value added: Compliance, Risk Reduction</i>	06/30/2024
4.	Ensure that Vendor has current insurance documentation. <i>Value added: Compliance, Risk Reduction</i>	Completed
Priority 3		
5.	Ensure Vendor provides contractually obligated reports. <i>Value added: Compliance, Efficiency, Risk Reduction</i>	09/30/2024
6.	Ensure that Vendor provides subscription access to the City for fuel price verification. <i>Value added: Risk Reduction</i>	09/30/2024
7.	Perform periodic fuel quality testing. <i>Value added: Compliance, Risk Reduction</i>	09/30/2024

C. Background

Internal Audit has completed an audit of the City’s fuel purchase contract with Merrimac Petroleum Inc (Vendor). This contract is administered by the City’s Public Works Department.

Fuel Purchase Contract Overview

The City of Glendale has a piggyback type of cooperative agreement with Vendor to purchase unleaded and diesel fuel on an as-needed basis. The piggyback agreement is based on an existing contract that the Vendor has with the City of Huntington Beach. The

contract is set to expire on January 31, 2025 and it is on a not-to-exceed basis for up to \$5 million.

Contract Administration

The key aspects of the fuel purchase contract are as follows:

- **Ordering:** All fuel orders must be authorized in writing by City staff and emailed to Vendor staff. Physical inventory for all fuel type is monitored via a Veeder Root Monitoring System. The authorized fuel order is to be fulfilled, delivered and unloaded to respective fuel sites within 1 working day of order authorization by the City. Vendor is to provide the City with monthly, quarterly and annual summary fuel reports.
- **Delivery:** Vendor shall perform a Veeder Root² Inventory printout before and after fuel is delivered into storage tank. These printouts are to be provided to designated City staff at the time of each completed delivery. Vendor shall also provide a fuel delivery bill of lading to designated City staff at the time of completed delivery. Apart from having to rely on the Veeder Root printouts, the system can be queried for reports showing the volume of fuel delivered for any given date.
- **Oil Spill Procedures:** Vendor shall be responsible for all spillage that may occur during transit, loading, and unloading operations. Vendor shall be held financially and legally liable for the complete containment, remediation and disposal of all hazardous waste spills that may occur during Vendor's fueling operations. Vendor shall provide the City with a hazardous waste spill and emergency procedure.
- **Fuel Quality and Testing:** Fuel supplied by Vendor shall be free from contamination. City reserves the right to conduct spot check testing for fuel product quality assurance via an independent laboratory. The test of fuel quality may be performed before, during, and after unloading. Should test results show that the fuel contains contamination, the fuel will be rejected.
- **Fuel Type and Pricing:** The prices of all fuels shall be adjusted daily reflecting the Oil Price Information Service (OPIS) unbranded, low daily rack/terminal prices published at approximately 10am ET, for the "Los Angeles" PADD³ 5 report.
- **Vendor Invoices:** Vendor shall submit invoices electronically. Payment shall only be made for quantities delivered and accepted. The Vendor shall submit with each invoice a copy of the delivery bill of lading from the carrier, and a copy of the applicable OPIS price sheet. The City is exempt from the Federal Fuel Excise Tax.

² A Veeder Root system is an automatic tank gauge that can be programmed to monitor several aspects of the use, compliance, and performance of an aboveground or underground storage tank.

³ Petroleum Administration for Defense Districts; these are five geographic areas into which the United States was divided by the Petroleum Administration for Defense for purposes of administration during federal price controls or oil allocation.

City's Internal Policies and Procedures

Apart from the contract, the City has its own internal policies and procedures related to fuel ordering, receiving, and invoice processing.

An important part of the policies and procedures address monitoring discrepancies between invoiced and delivered fuel amounts. The policies state that City staff shall use the Veeder Root printouts to compare to the delivery receipt which will show the gallons of fuel delivered. An allowable discrepancy of 1.5% of the fuel volume is acceptable to adjust for temperature expansion or contraction for the product, however, anything greater, then the discrepancy must be noted on the delivery receipt in writing by the receiving City employee before signing for the fuel delivery and the fuel delivery driver must also acknowledge it through a signature on the receipt as well.

D. Objective, Scope and Methodology

The objective of this audit is to determine whether the billing is in compliance with contract terms including whether taxes are collected appropriately and whether the pricing terms are followed.

The scope of the audit covers FY 2024.

In order to accomplish the audit objective, Internal Audit performed the following:

- Interviewed City staff that administer the fuel purchase contract.
- Reviewed contract terms and available contract administration policies and procedures.
- Performed site visits to a fuel delivery site.
- Conducted detailed sample invoice testwork on all invoices from Vendor in September 2023 and fuel delivery reports for four sites during August, September and October 2023.
- Conducted detailed testwork on taxes charged on invoices.

As a result of these audit procedures performed, seven observations were identified and are detailed in the Observations, Recommendations, and Management Responses Matrix beginning on the following page.

E. Observations, Recommendations, & Management Responses Matrix

Ref	Observation	Recommendation	Management Response
1.	Fuel Delivery		
Priority 2	<p>Internal Audit reviewed 14 invoices from August to October 2023 for four fueling sites and corresponding Veeder Root system reports and reconciled these to available Veeder Root printouts and noted the following:</p> <p>a. 2 of the 14 (or 14%) invoices had Veeder Root printouts available. Per PWD staff, the printouts are not consistently produced by Vendor drivers and are not always retained by City staff, since the system report provides the same information as the printouts.</p> <p>b. 2 of the 14 (or 14%) invoices had a stated volume of fuel that was 1.5% more than what was delivered. These discrepancies were not noted on the delivery receipt or acknowledged by the delivery driver.</p>	<p>PWD management perform the following:</p> <p>a. Request that the Vendor provide the Veeder Root printouts along with the invoices as required by the agreement.</p> <p style="text-align: center;"><u>or</u></p> <p>Re-evaluate the policy requiring Veeder Root printouts to determine whether a system report could be used instead to perform invoice review.</p> <p>b. Ensure that City and Vendor staff acknowledge on the delivery receipt any fuel discrepancies as required by internal policy.</p> <p style="text-align: center;"><u>or</u></p> <p>Re-evaluate the current policy of monitoring discrepancies on the delivery receipt and instead use system report to monitor any discrepancies between invoiced and delivered fuel amounts.</p>	<p>Agreed and will implement by June 30, 2024.</p> <p>PWD will re-evaluate the discrepancy tolerance threshold by averaging several deliveries at various sites over a 30-day period for Veeder Root readings and delivery tickets.</p>

Ref	Observation	Recommendation	Management Response
2. Invoicing			
Priority 2	<p>Per the agreement, Vendor shall provide a fuel delivery bill of lading receipt to designated City staff at the time of completed delivery. Internal Audit reviewed all seven Vendor invoices in September 2023 and noted that three out of the seven invoices' bill of lading support lacked a City staff signature acknowledging the fuel delivery. Upon inquiry, City staff are not always present during fuel deliveries.</p>	<p>PWD management ensure that City staff are present and sign the delivery receipt acknowledging each fuel delivery and document this procedure in the internal City policies.</p>	<p>Agreed and will implement by June 30, 2024.</p>
3. Oil Spill Procedures			
Priority 2	<p>The agreement states that the Vendor shall be responsible for all spillage that may occur during transit, loading or unloading operations. However, according to City staff, oil spills in small amounts are contained by City staff.</p> <p>Additionally, the Vendor has not provided the City with its own hazardous waste spill and emergency procedure.</p>	<p>PWD management perform the following:</p> <ol style="list-style-type: none"> a. Update its internal policies to clarify responsibilities between the Vendor and City staff on fuel spill containment. b. Request that the Vendor provide the City its hazardous waste spill and emergency procedure. 	<p>Agreed and will implement by June 30, 2024.</p> <p>PWD has received the spill response plan from the Vendor and will update the internal policies to incorporate the Vendor spill containment procedures.</p>

Ref	Observation	Recommendation	Management Response
4. Insurance			
Priority 2	<p>Upon inquiry, the City did not have current insurance documentation from the Vendor. The latest insurance on file had expired since June 13, 2022 according to the City Attorney's Office.</p>	<p>City Attorney's Office perform the following:</p> <ul style="list-style-type: none"> a. Work with the Vendor to obtain current insurance documentation and ensure that it satisfies the contract. b. Establish controls to ensure that all Vendor insurance documentation is current. 	<p>City Attorney's Office has already obtained current insurance documentation from the Vendor and will ensure that insurance documentation is current going forward by identifying Vendors with expired insurance through a Munis report and contacting Vendors when documents are not received.</p>
5. Vendor Reports			
Priority 3	<p>Per the agreement, Vendor shall provide to City quarterly and annual summary reports as to quantities, locations, and types of fuel delivered including pricing and total cost information. According to PWD staff, the Vendor has not provided the City these reports.</p>	<p>PWD management request that the Vendor provide the contractually required monthly, quarterly, and annual reports.</p>	<p>Agreed and will implement by September 30, 2024.</p>

Ref	Observation	Recommendation	Management Response
6. Price Verification			
Priority 3	<p>Per the contract, the Vendor shall acquire an OPIS subscription in the name of the City of Glendale for diesel and unleaded fuels annually. However, City staff are not aware of this subscription.</p> <p>Additionally, independent verification of the fuel prices listed on invoices is currently not performed by the City, instead, City staff rely on the OPIS report provided by Vendor to identify the lowest price.</p>	<p>PWD management perform independent verification of prices listed on fuel invoices utilizing the OPIS subscription provided by Vendor.</p>	<p>Agreed and will implement by September 30, 2024.</p>
7. Fuel Quality			
Priority 3	<p>Upon inquiry, PWD staff provided Internal Audit with the latest fuel quality testing results, which was performed in 2016 by a consultant. The test report had two recommendations, which have not been implemented. First, fuel quality testing has not been performed annually since 2016. Second, it is unclear whether fuel quality testing has been performed on a sample of Vendor fuel prior to delivery to City tank.</p>	<p>PWD management ensure that fuel quality testing is performed on a periodic basis, this policy is documented and ensure that fuel testing includes sampling from Vendor fuel prior to its delivery to City tanks.</p>	<p>Agreed and will implement by September 30, 2024.</p>

Appendix 1: Definitions of Priority Rankings and Value-Added Categories

Definitions of Priority Rankings

The priority rankings are assigned by internal auditors based on their professional judgment. They are also agreed to by management based on their evaluation of the alignment with the strategic goals, priorities and available resources. A timeline has been established based on each priority ranking:

- a. **PRIORITY 1** - Critical control weakness that exposes the City to a high degree of combined risks. Priority 1 recommendations should be implemented within **3 months** from the first day of the month following report issuance or sooner if so directed.
- b. **PRIORITY 2** - Less than critical control weakness that exposes the City to a moderate degree of combined risks. Priority 2 recommendations should be implemented within **6 months** from the first day of the month following the report issuance or sooner if so directed.
- c. **PRIORITY 3** - Opportunity for good or better practice for improved efficiency or reduce exposure to combined risks. Priority 3 recommendations should be implemented within **9 months** from the first day of the month following the report issuance or sooner if so directed.

Definitions of Value-Added Categories

The four value-added impact categories are defined based on their impact from the audit recommendations:

- a. **COMPLIANCE** - adherence to laws, regulations, policies, procedures, contracts, or other requirements.
- b. **COST SAVING** - lower the costs related to conducting City business.
- c. **EFFICIENCY** - ability to avoid wasting resources (money or time) in achieving goals.
- d. **RISK REDUCTION** - lower the risks related to strategic, financial, operations and compliance.