

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

Theford L. Shanklin, CPA, Director
Legislative Post Audit Division
Building 1, Room W-329
1900 Kanawha Blvd., E.
Charleston, West Virginia 25305-0610



Area Code (304)
Phone: 347-4880
Fax: 347-4889

MEMORANDUM

Date: January 5, 2007

To: Theford L. Shanklin, Director

From: Michael E. Sizemore *MES*
Erin M. Hardy *EMH*

Subject: **FOLLOW-UP REVIEW OF THE SPECIAL REPORT OF THE WEST VIRGINIA DEPARTMENT OF ENVIRONMENTAL PROTECTION GAS MILEAGE INTERNAL CONTROL STUDY FOR THE PHH BILLING PERIOD 2/7/2003 - 6/30/2003**

In accordance with your instructions, we conducted a follow-up review to examine the implementation of recommendations contained in the special report of the West Virginia Department of Environmental Protection Gas Mileage Internal Control Study for the PHH Billing Period February 7, 2003 through June 30, 2003. In conducting this follow-up, we met on October 21, 2005 with the following representatives of the West Virginia Department of Environmental Protection (WVDEP) to discuss the current status of internal controls over gasoline cards and use of State vehicles in the Department of Environmental Protection: Brent Kessinger, Fleet Manager; Mark Doyle, Accounts Payable Manager; Mary Ann Nicely, Accounting Technician IV; and, Jim McFarland, Accounting Technician III. In addition, we met on October 20, 2005 with the following representatives of the West Virginia Department of Administration to discuss the contract between the gasoline card vendor and the State of West Virginia: Ken Frye, Assistant Director - Program Services Section; Janice Boggs, Central Fleet and State Capitol Parking Unit Manager; and, Barry Gunnoe, Fleet and Parking Assistant.

In the course of planning our follow-up review, we learned the West Virginia Department of Administration had entered into a contract with a new vendor to provide gasoline cards, the new contract became effective July 1, 2005. As a result, we decided to examine the billings for the WVDEP for the period May 1, 2005 through June 30, 2005 under the old gasoline card vendor, Petersen, Howell, and Heather (PHH), as well as, the billings for the period July 1, 2005 through August 31, 2005 and the month of April 2006 under the new gasoline card vendor, Automotive Rentals, Inc. (ARI). Also, we

analyzed the terms and conditions of the separate contracts for gasoline cards and vehicle maintenance between ARI and the West Virginia Department of Administration covering the period July 1, 2005 through June 30, 2006. Our observations with respect to the contracts follow later in this report.

As a part of our work, we determined specific actions which were taken by the Department of Environmental Protection with respect to each finding in the prior special report noted above. Our follow-up shows the WVDEP made only minor substantive changes in the system of internal controls used by the WVDEP to control and monitor the use of State gasoline cards and State vehicles by WVDEP personnel. Specifically, WVDEP staff using State vehicles were advised to keep every receipt regarding gasoline card and maintenance expenses and file such receipts by date. In addition, the WVDEP Fleet Manager does regularly advise WVDEP personnel assigned State vehicles on the guidelines concerning the use of fuel cards. However, the WVDEP representatives told us the Department did make some improvements in the system of internal controls which are set out as follows:

FINDING #1 - WEAK INTERNAL CONTROLS OVER GASOLINE CARD USAGE

The WVDEP did not have an effective system of internal controls over gasoline purchases made with the PHH gasoline cards. Also, the WVDEP did not know whether all gasoline purchases were made for State business only. In addition, we noted 21 of the 338 vehicles had 52 instances where the mileage reported on the PHH invoice was irregular between gasoline purchases. Lastly, we noted 47 instances where no mileage was recorded on the PHH invoice for 26 of the 338 vehicles.

We Recommended:

The WVDEP comply with Chapter 5A, Article 8, Section 9 (b) of the West Virginia Code, as amended, and establish a system of internal controls.

WVDEP Action:

The WVDEP Fleet Manager has notified the coding staff of each Division that State fuel card vendor invoices are to be audited closely and has provided them with examples of what to look for. Also, the WVDEP Fleet Manager has advised all assigned drivers to keep every receipt relating to fuel purchases and maintenance services and to file such receipts by date. And, the WVDEP Fleet Manager has sent several E-mails to assigned drivers and pool vehicle coordinators for the purpose of providing guidelines for the use of State fuel cards. According to WVDEP policy, State vehicles are to be used for "official State business only". In addition, the WVDEP Fleet Manager has advised assigned drivers, via E-mail, that all gasoline purchases are

to be for State vehicles for business purposes only. The monthly audits conducted on fuel vendor invoices have been historically used by WVDEP to provide an investigative tool designed to help ensure proper use of fuel cards; however, as November 30, 2005, the invoices received from ARI, the new fuel vendor, do not provide odometer information which the WVDEP Fleet Manager believes would be very helpful as an internal control tool to regulate usage of State vehicles.

Post Audit Division Comments:

The WVDEP currently processes ARI's invoices for fuel and vehicle maintenance without sufficient oversight procedures in place to ensure appropriate usage of State fuel cards. WVDEP staff responsible for controlling and monitoring the use of State vehicles and gasoline cards believe the system in use by the Department at the time of our prior report was generally sufficient to accomplish the Department's internal control objectives. We did not agree with that assessment at the time of the original study and we believe the features of the current system now used by WVDEP with respect to the new fuel vendor, ARI, has significant weaknesses in internal controls, primarily because the WVDEP is not utilizing on a routine basis the management reports made available to them by ARI. These Fleet Management Reports include the Fuel Report; Odometer History Report; and, the Service History Report. Instead, the WVDEP only plans to use these available Fleet Management Reports on an "exception" basis.

We believe the WVDEP should use the Fleet Management Reports from ARI to monitor and control the usage of State fuel cards, use of State vehicles and to aid in the audit of the monthly invoices from ARI for fuel purchases and vehicle maintenance charges to ensure such usage was for State business.

FINDING #2 - FEDERAL EXCISE TAXES NOT RECOVERED

The WVDEP had not sought reimbursement from the Federal government for Federal excise taxes paid for gasoline purchases. Specifically, we noted 918 instances out of 2,930 transactions or 31% of the total transactions where Federal excise taxes totaling approximately \$2,397.00 were charged to the WVDEP by PHH. We further projected WVDEP may have been charged as much as \$9,600.00 in Federal excise taxes for gasoline purchases because the study period reviewed by us only included fuel charges for the period February 7, 2003 - June 30, 2003.

We Recommended:

The WVDEP review invoices and ask for refunds from the Federal government for Federal Excise Taxes paid on gasoline in compliance with the Internal Revenue Service, Publication 378, Fuel Tax Credits and Refunds.

WVDEP Action:

The Department of Administration worked with PHH to obtain a refund of Federal Excise taxes paid.

Post Audit Division Comments:

We confirmed the Department of Administration filed for and received refunds of Federal Excise taxes paid for fuel purchases totaling \$98,058.30 and covering the following reporting periods: Period from January 1, 2002 - December 31, 2004 - \$91,431.00; Quarter Ended March 31, 2005 - \$2,309.38; Quarter Ended June 30, 2005 - \$2,926.88; and, Quarter Ended September 30, 2005 - \$1,391.04.

OTHER ISSUES - IMPLEMENTATION OF THE ARI CONTRACTS

As a part of our work, we examined the terms and conditions of the contracts between ARI and the West Virginia Department of Administration. We noted the work is now controlled by separate contracts for fuel credit card services and vehicle maintenance. Also, we observed the new contracts call for ARI to invoice the individual spending units. Under the PHH contract, all invoices were submitted to WVDOA who in turn billed and collected funds from the individual spending units which were then paid over to PHH. We also participated in the individualized training provided by ARI to the Fleet Coordinators of each spending unit and we accessed and analyzed various Fleet Management Reports from ARI regarding fuel purchases and vehicle maintenance charges incurred by the WVDEP for the period July 1, 2005 - November 30, 2005, as well as, the invoice for the month of April, 2006. We have the following comments:

Training of State Fleet Managers

In our discussions with representatives of the Fleet Management Office of the WVDOA, it became apparent to us that one major impediment to implementation of the provisions of the fuel vendor contract between ARI and the WVDOA was the lack of timely training for the assigned Fleet Managers in the various State spending units using ARI's services. We believe Fleet Managers in the various spending units should take the on-line training available from ARI as a means to become fully knowledgeable of the tools available to them in managing the State Fleet. Without the training, the Fleet Managers in the respective spending units and other spending unit staff assisting them can not effectively access the various Fleet Management reports from the vendor which means the ARI fuel invoices can not be reviewed to determine whether services have been received, whether Federal Excise taxes have been assessed to their spending unit as part of any fuel purchases and whether any patterns indicative of misuse of their vehicle fleet are evident. As of January 5, 2007, according to information obtained from ARI and provided to us by the WVDOA, only 27 of the 60 individual Fleet Managers in the various spending units were shown as having participated in ARI's Webcast Training Session for Fleet Managers.

Post Audit Division Comments:

We believe the West Virginia Department of Administration should use all of the means available to them to require all Fleet Managers in the individual spending units to take the on-line training provided by ARI. The contract with ARI has been in place since July 1, 2005 or approximately eighteen months. Accordingly, we believe the WVDOA should immediately inform the respective department heads of any spending units where the Fleet Manager assigned within that spending unit has yet to complete the available training.

Use of PIN Numbers

During the course of our work, we learned the system used by ARI allows an individual PIN number to be assigned to each authorized driver of a Fleet vehicle. As such, the credit card is assigned to a respective State vehicle; however, under the ARI system, multiple drivers can use the same credit card and the responsibility for individual purchases can be assigned by use of the PIN number. Therefore, we expected the total number of PINs assigned by each spending unit would exceed the number of State vehicles in that spending unit's fleet. However, we learned that a total of five State spending units have fewer PIN numbers assigned than the total number of State vehicles in their fleet. We asked the WVDOA why the number of PINs assigned would be less than the number of vehicles in use by the spending unit and they told us the only apparent logical answer was that each driver does not have a PIN assigned. We are concerned that the lack of individual PINs could be indicative of a lack of internal control over the use of State Fleet vehicles and a lack of accountability with respect to fuel purchases made using the fuel credit card. The following schedule shows the respective State spending units where the number of fleet vehicles is exceeded by the number of assigned PINs as follows:

<u>Name of Spending Unit</u>	<u>Number of Vehicles</u>	<u>Number of PINs Assigned</u>
Regional Jail Authority	67	1
WVDOA - General Services Division	5	1
WVU - Tech	5	1
Division of Criminal Justice	2	1
DHHR	262	91

Theford L. Shanklin
January 5, 2007
Page 6

Post Audit Division Comments:

We believe the West Virginia Department of Administration should require the individual spending units to assign an individual PIN to each State vehicle. We believe the lack of individual PINs defeats the internal control features of the ARI system and increases the opportunity for unauthorized use of the State fuel credit card and State vehicles