

**Municipality
of
Anchorage**



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OFFICE OF THE INTERNAL AUDITOR

March 14, 1995

**Internal Audit Report 95-05
Controls Over Fuel Usage
Anchorage Water and Wastewater Utility**

Introduction. Anchorage Water and Wastewater Utility (AWWU) uses fuel for their vehicle fleet, emergency generators, equipment, and heating two facilities. Fuel expense for the period of October 1993 through September 1994 totalled \$103,651. The fuel expense was composed of \$93,733 in bulk fuel and \$9,918 in gas station purchases.

Approximately 96% of the fuel purchased during the time period reviewed was for AWWU's vehicle fleet use. Fuel for vehicle use was obtained either from Mapco, Tesoro and Texaco gas stations or from the on-site bulk fuel pumps located at the AWWU Operations Division facility (King Street) and the Eklutna Water Treatment facility (Eklutna). The remaining fuel purchased was for use in emergency generators at 19 AWWU facilities and in fuel heaters at two locations. Fuel was not maintained on a perpetual inventory system, but was expended at the time of purchase. During the annual inventory, fuel on hand was measured and recorded as an asset on the Municipality's financial records.

Scope. Our audit objective was to determine whether fuel at AWWU was properly controlled and documented. The audit included tests of accounting and fuel records and such other procedures as we considered necessary in the circumstances. The audit period was October 1993 through September 1994.

Overall Evaluation. Controls over fuel at AWWU required strengthening. Specifically, invoices for bulk fuel purchases were not properly certified, bulk fuel was not properly inventoried, fuel purchases and issues were not always entered into the vehicle fuel reporting system, and AWWU did not have a written policy and procedure for the receipt, issuance and control of fuel nor for the input of fuel transactions into the vehicle fuel reporting system.

FINDINGS AND RECOMMENDATIONS

1. Invoices for Bulk Fuel Purchases Not Properly Certified.

- a. **Finding.** Invoices for bulk fuel purchases were certified for payment without proper verification as to the accuracy of the amount of fuel actually received. AWWU employees did not perform before and after inventories nor did they perform other procedures to determine the amount of fuel delivered. Thus it appeared that the only control over the delivery of bulk fuel was the integrity of the vendor.

- b. **Recommendation.** Procedures should be implemented for the receipt of bulk fuel. The procedures should provide some means of verifying the quantity of fuel delivered by vendors prior to certifying the invoices for payment.

- c. **Management Comments.** Management concurred and stated, "AWWU agrees with the findings and recommendations in this area. AWWU will develop and implement procedures for verifying bulk fuel deliveries by August 30, 1995."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Bulk Fuel Was Not Properly Inventoried.**

- a. **Finding.** Bulk fuel was not properly inventoried. AWWU personnel annually measured the amount of fuel on hand but did not reconcile the quantity to any records of accountability. Properly reconciled periodic inventories assist management personnel in identifying pilferage, leaking tanks or other losses and thus are a vital part of the internal controls over fuel.

- b. **Recommendation.** Bulk fuel should be inventoried periodically with the inventory reconciled to records of accountability.

- c. **Management Comments.** Management concurred and stated, "AWWU agrees with the findings and recommendations in this area. AWWU will develop and implement procedures for inventory bulk fuel by August 30, 1995."
 - d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
3. **Fuel Purchases and Issues Were Not Always Entered Into The Vehicle Fuel Reporting System.**
- a. **Finding.** Fuel purchases and issues were not always entered into the vehicle fuel reporting system. As a result, the system could not be relied upon as an accurate management report of fuel usage by vehicle. Our review of 142 bulk fuel issues and 38 gas station fuel purchases during the first 6 months of 1994 revealed the following:
 - 1) Eight of 142 bulk fuel issues (6%) and 6 of 38 gas station fuel purchases (16%) were not entered into the vehicle fuel reporting system. Seven of the eight bulk fuel issues were from Eklutna because Eklutna's bulk fuel dispensing logs were not forwarded to AWWU's Operations Division for input to the vehicle fuel reporting system.

2) In two instances the gallons of fuel entered to the vehicle fuel reporting system did not agree to either the bulk fuel dispensing log or the gas station receipt and in one instance the odometer reading entered did not agree to the gas station receipt.

b. **Recommendation.** All fuel purchases and issues should be entered into the vehicle fuel reporting system to provide an accurate system for monitoring fuel usage by vehicle.

c. **Management Comments.** Management concurred and stated, "AWWU agrees with the findings and recommendations in this area. AWWU will develop and implement procedures for entering bulk fuel transactions into the fuel inventory system by August 30, 1995."

d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.


4. **No Written Policy and Procedures for Fuel.**

a. **Finding.** AWWU did not have written policy and procedures for the receipt, issuance and control of fuel nor for the input of fuel transactions into the vehicle fuel reporting system. Written policy and procedures formalize management directives, they are the

foundation for strong internal control and provide consistency in performing routine tasks.

- b. **Recommendation.** AWWU should develop and implement written policy and procedures for the receipt, issuance, and control of fuel and the input of fuel transactions into the vehicle reporting system.
- c. **Management Comments.** Management concurred and stated, "AWWU agrees with the findings and recommendations in this area. AWWU will develop and implement procedures for the areas addressed by August 30, 1995."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussions With Responsible Officials. The results of this audit were discussed with the AWWU Materials/Fleet Management General Foreman on February 2, 1995.


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