



**A Report to the
Audit Committee**

Mayor
John Cooper

**Department of Codes and
Building Safety Director**
Bill Herbert

Audit Committee Members
Kevin Crumbo
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Brackney Reed
Jim Shulman
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Metropolitan
Nashville
Office of
Internal Audit

Audit of the Department of Codes and Building Safety Fuel Transactions

January 6, 2021

EXECUTIVE SUMMARY

January 6, 2021



Why We Did This Audit

The audit was initiated due to the volume of fuel transactions within the Department of Codes and Building Safety.

What We Recommend

- Ensure adequate segregation of duties exists regarding the requisition, approval, physical receipt, and payment of fuel cards.
- Ensure documentation is generated and retained for the monthly reviews conducted on fuel card activity.

Audit of the Department of Codes and Building Safety Fuel Transactions

OVERVIEW

The Metropolitan Government of Nashville and Davidson County purchases fuel for government vehicles and equipment across a multitude of departments and agencies. Fuel cards are used by the Department of Codes and Building Safety for vehicles utilized by inspectors to perform inspections and other duties throughout the Davidson County area. Fuel cards transactions made by the Department of Codes and Building Safety can be categorized into two groups, fuel cards issued by the Department of General Services, Office of Fleet Management and fuel cards issued under a new pilot rental program started in April 2020 by the Department of Codes and Building Safety.

During fiscal years 2019 and 2020, the Department of Codes and Building Safety purchased 52,662 gallons of fuel at a cost of \$105,983.

OBJECTIVE AND SCOPE

The objective of this audit was to determine whether fuel card transactions were supported by a valid business purpose and conformed to applicable policies and procedures by the Metropolitan Nashville Government.

The audit scope included fuel card transactions processed from July 1, 2018, through June 30, 2020.

WHAT WE FOUND

All fuel transactions appeared to be for valid business purposes and monitoring procedures were in place. There were opportunities for improvement regarding segregation of duties and the documentation and retention of monitoring procedures.

GOVERNANCE

The Director of Codes is appointed by and reports directly to the Metropolitan Nashville Government's Mayor. The Department of Codes and Building Safety is charged with the duty to administer the Metropolitan Nashville Building Code and the Metropolitan Nashville Zoning Code. The designated fleet coordinator for the Department of Codes and Building Safety is an Assistant Director that reports to the Director.

The Metropolitan Nashville Code of Laws § 2.32.060 authorizes the Office of Fleet Management to adopt additional rules and regulations pertaining to use and operation of Metropolitan Nashville Government vehicles and equipment. To this end, the Department of General Services issued a series of administrative orders as policies and procedures pertaining to fleet acquisition, maintenance, fuel management, assignments, and disposal. The Department of Codes and Building Safety follows these rules for Office of Fleet Management assigned cars and follows internal policies for rental cars utilized.

BACKGROUND

The Department of Codes and Building Safety uses fuel cards for vehicles utilized by inspectors to perform inspections and other duties throughout the Davidson County area. Fuel card transactions made by the Department of Codes and Building Safety can be categorized into two groups, fuel cards issued by the Department of General Services, Office of Fleet Management and those issued under a new pilot rental program started in April 2020 by the Department of Codes and Building Safety. The pilot program utilizes an agreement with Enterprise Rental Cars instead of vehicles available through the Office of Fleet Management. The program has matured to the point that the department is currently employing 49 rental cars and 14 Office of Fleet Management assigned cars. Wright Express fuel cards are used for both categories of fuel card transactions. The administration of card usage for rental car transactions resides completely within the Department of Codes and Building Safety.

Designated staff within the Department of Codes and Building Safety review and monitor fuel card transactions to ensure compliance with applicable policies. The Office of Fleet Management, Wright Express, and the Department of Codes and Building Safety conduct analytical procedures to identify unusual transactions. Identified anomalies are then followed up with the individual departments or personnel. A high-level summary of fuel card transactions is presented in Exhibit A.

Exhibit A – Fuel Usage and Cost for Transactions Processed July 1, 2018 - June 30, 2020

Fiscal Year	OFM (gallons)	OFM (dollars)	Rentals (gallons)	Rentals (dollars)
2018	25,519	\$ 55,208	0	\$ 0
2019	21,040	41,657	6,103	9,119
Total	46,559	\$ 96,865	6,103	\$ 9,119

Source: Office of Fleet Management and the Department of Codes and Building Safety records

OBJECTIVE QUESTIONS AND CONCLUSIONS

Were fuel transactions supported by a valid business purpose relating to services provided by the Metropolitan Nashville Government?

Generally, yes. Fuel transactions appeared to have a valid business purpose for all reviewed transactions. (See Observations A and B.)

Supporting Objectives and Conclusions

a) Were potentially suspicious fuel transactions supported by business purposes in conformity with the mission of the Metropolitan Nashville Government?

Yes. We examined all fuel transactions from July 1, 2018, through June 30, 2020, for the Department of Codes and Building Safety. This represents 52,662 gallons equal to \$105,983. Our review consisted of looking for the following:

- Other than unleaded gasoline fuel purchased;
- Over 25 gallons of fuel purchased in a single transaction;
- Fuel purchases that were not tax exempt;
- Out of state fuel purchases; and
- Non-fuel purchases.

No exceptions were noted. Controls were in place to detect and take corrective measures when fraudulent transactions were detected. For example, two out-of-state transactions found were a result of the fuel cards being compromised via gas pump skimmers. The applicable cards were properly canceled immediately after the first transaction and upon Wright Express notification to the Office of Fleet Management and the Department of Codes and Building Safety.

b) Were adequate controls in place surrounding fuel card issuance, usage, and monitoring?

Generally, yes. Each fuel cardholder signs the Wright Express agreement and is required to conform to Office of Fleet Management related Administrative Orders and department policy. The Department of Codes and Building Safety's fleet coordinator reviews fuel card transactions monthly for unallowed or unusual activity. However, we did note improvement opportunities surrounding segregation of duties and monitoring. (See Observations A and B.)

AUDIT OBSERVATIONS

Internal control helps entities achieve important objectives and sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (COSO)*, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environment, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. The audit observations listed are offered to assist management in fulfilling their internal control responsibilities.

Observation A – Segregation of Duties

A single employee requests, approves, and physically obtains the new fuel cards in addition to approving the fuel card bill for payment. Lack of segregating incompatible duties enhances the risk of fraud or error.

Criteria:

COSO, Control Activities–Principle 10–The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of the objectives to acceptable levels.

Assessed Risk Rating:

Medium

Recommendation for management of the Department of Codes and Building Safety to:

Ensure adequate segregation of duties exists regarding the requisition, approval, physical receipt, and payment of fuel cards.

Observation B – Monitoring Procedures

Documentation of the monthly reviews and monitoring of fuel transactions is not maintained. Monthly fuel transactions are reviewed for propriety, but no documentation or other evidence is maintained to prove the review occurred. This increases the risk of such monitoring activities not occurring and increases the risk of fraud, error, or noncompliance with management’s objectives.

Criteria:

- *COSO, Control Activities–Principle 10–The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of the objectives to acceptable levels.*
- *COSO, Information and Communication–Principle 13–The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.*

Assessed Risk Rating:

Medium

Recommendation for management of the Department of Codes and Building Safety to:

Ensure documentation is generated and retained for the monthly reviews conducted on fuel card related activity.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

METHODOLOGY

To achieve the audit objectives, auditors performed the following steps:

- Interviewed key personnel at the Office of Fleet Management.
- Interviewed the Department of Codes and Building Safety fleet coordinator.
- Reviewed transactions that appeared unusual.
- Reviewed fueling errors identified by the Office of Fleet Management.
- Considered risk of fraud, waste, and abuse.
- Considered information technology risks.

AUDIT TEAM

James Carson, CIA, CFE, In-Charge Auditor

Bill Walker, CPA, CIA, CFE, Principal Auditor

Lauren Riley, CPA, CIA, ACDA, CMFO, Metropolitan Auditor

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

JOHN COOPER
MAYOR



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

DEPARTMENT OF CODES & BUILDING SAFETY

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December 5, 2021

Lauren Riley, CPA, CIA, ACDA, CMFO, Metropolitan Auditor
Metropolitan Nashville Office of Internal Audit
P.O. Box 196300
Nashville, TN 37219-6300

RE: Audit of the Department of Codes and Building Safety Fuel Transactions

Dear Ms. Riley:

This letter acknowledges that Metro Codes received the Fuel Card Transactions Audit draft report issued on December 22, 2020. We have reviewed your observations and have implemented your recommendations as indicated in the management response.

Thank you for the time and consideration put into this project. We look forward to and welcome any opportunities for improvement here at Metro Codes and appreciate your partnership.

Sincerely,

A handwritten signature in blue ink, appearing to read "A. Viravouth".

Alicia Viravouth, CMFO
Finance Manager, Metro Codes

cc: James Carson, CIA, CFE, In-Charge Auditor
William Walker, CPA, CIA, CFE, Principal Auditor
William Herbert, Director/Metro Codes
Byron Hall, Assistant Director/Metro Codes

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APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

We believe that operational management is in a unique position to understand best their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing their response to our recommendations.

Risk	Recommendations	Concurrence and Action Plan	Expected Completion Date
<i>Recommendations for management of the Department of Codes and Building Safety to:</i>			
M	A.1 Ensure adequate segregation of duties exist regarding the requisition, approval, physical receipt and payment of fuel cards.	Accept: The Finance Manager hired in September reviews all WEX fuel card invoices for accuracy and reasonableness along with approving WEX fuel card invoices for payment in Oracle R12. Second level of invoice review and approval in Oracle R12 required so Assistant Director also monitoring and reviewing fuel card payments. Finance Accounts Payable staff dedicated to Metro Codes via Metro Payment Services also reviews all invoices for duplication, sales tax, and other disallowed items before initiating payment in Oracle R12.	September 2020
M	A.2 Ensure documentation is generated and retained for the monthly reviews conducted on fuel card related activity.	Accept: The Metro Codes Fleet Coordinator maintains monthly files for WEX fuel card invoices. Moving forward, the Fleet Coordinator will sign all WEX fuel card invoices upon completion of review to ensure adequate documentation. Finance Manager also keeps monthly files for all WEX fuel card invoices sent to Metro Payment Services for payment initiation.	December 2020

APPENDIX B – ASSESSED RISK RANKING

Observations identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance or reputational impact the issue identified has on the Metropolitan Nashville Government. Items deemed “Low Risk” will be considered “Emerging Issues” in the final report and do not require a management response and corrective action plan.

Rating	Financial	Internal Controls	Compliance	Public
HIGH	Large financial impact >\$25,000 Remiss in responsibilities of being a custodian of the public trust	Missing, or inadequate key internal controls	Noncompliance with applicable Federal, state, and local laws, or Metro Nashville Government policies	High probability for negative public trust perception
MEDIUM	Moderate financial impact \$25,000 to \$10,000	Partial controls Not adequate to identify noncompliance or misappropriation timely	Inconsistent compliance with Federal, state, and local laws, or Metro Nashville Government policies	The potential for negative public trust perception
LOW/ Emerging Issues	Low financial impact <\$10,000	Internal controls in place but not consistently efficient or effective Implementing / enhancing controls could prevent future problems	Generally, complies with Federal, state, and local laws, or Metro Nashville Government policies, but some minor discrepancies exist	Low probability for negative public trust perception
Efficiency Opportunity	An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient			