



OFFICE OF INSPECTOR GENERAL PALM BEACH COUNTY

AUDIT REPORT: 2012-A-003 CITY OF PAHOKEE FUEL CARD & CREDIT CARD PROGRAMS

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Inspector General

"Enhancing Public Trust in Government"

SUMMARY RESULTS AT A GLANCE

Based on information received concerning unusual fuel transaction patterns identified by Palm Beach County (PBC), Facilities Development and Operations, Fleet Management Division, we conducted an audit of the City of Pahokee's (the City) fuel program. The audit scope was extended to include the City's credit card program. Our audit covered fuel and credit card transactions for the period of October 1, 2010 through March 31, 2012.

Fuel Program

The fuel program allows authorized City employees to fuel approved City-owned assets including vehicles, tractors, small equipment, and fuel storage containers. Fuel is obtained at PBC fuel depots under an inter-local agreement. PBC fuel depots are controlled by a dispensing and monitoring system, the Ward Automated Fleet Management System (Ward system). An employee fuel user card, in combination with either a vehicle's fuel asset card or small equipment card, is required to activate the system's fuel pumps.

The City authorized the issuance of nine fuel user cards of which eight are currently assigned and active. In addition, 51 vehicle fuel asset cards and three small equipment cards were active

as of March 31, 2012. For the period of October 1, 2010 through March 31, 2012, City fuel transactions totaled 33,440 gallons (unleaded and diesel), at a cost of \$110,962.

Our audit disclosed that the absence of comprehensive policies and procedures, poor practices in the use of fuel cards, and insufficient transaction monitoring all contributed to a weak control environment. This substantially increases the risk that fraud or abuse could occur and go undetected. Key controls such as the assignment, custody and use of fuel cards, as well as management monitoring of fuel transactions were not in place. Fuel transactions were often conducted outside the practices that otherwise, coupled with the functionality of the Ward system, would have established effective control and accountability over the City's fuel program. For example, our analysis identified 390 of the total 1,886 transactions (21%) for the audit period, where the following occurred:

- Using small equipment cards to the maximum amount permitted per transaction (25 gallons);
- Using a fuel asset card on one or more vehicles to which it was not assigned;

- Fuel transactions up to and beyond the maximum capacity of a vehicle's fuel tank;
- Vehicles with broken odometers for which the user would not be able to input correct mileage, and therefore the related transactions were not properly recorded; and
- Frequent entry of incorrect odometer readings including "plug" figures such as "100,000 miles".

These practices were either undetected by City management or allowed to go uncorrected. In addition, the City did not activate transaction monitoring and loss prevention controls available to users of the PBC Ward system. For example, the loss prevention control known as "Prompt-Validate" would deactivate the fuel pump when certain erroneous entries are made or inconsistent fuel transactions are attempted.

Accountability was further reduced by the routine practice of allowing fuel user cards assigned to a specific employee to be used by other employees. This resulted in the Ward system transaction logs showing three employees accounting for over 83% of the City's fuel transactions.

We also noted 19 transactions where an employee fueled a City vehicle at a distant PBC fuel depot near his home, approximately a 60 mile roundtrip commute. We subsequently determined that this employee, along with five other employees, have been assigned take home vehicles.

With respect to take home vehicles, the City has not required the use of vehicle

logs to track date, origin, destination, purpose, and mileage which among other things could be used to assess the continued need for take home vehicles, and the conditions under which they are operated. Also, the City may not be in compliance with IRS tax laws which, in certain circumstances, require employers to report all or some portion of the benefit of take home vehicles as additional employee taxable compensation.

Credit Card Program

The City has authorized credit cards for use by City Commissioners and certain employees for City-related expenditures. Credit card use has been minimal, as most purchasing is conducted through the use of approved purchase orders. Spending on City-authorized credit cards totaled \$19,736 for the 18 months of transactions in the audit scope. There were ten credit cards issued as of the end of the audit period with a total combined credit line of \$10,000.

Overall, control over the use of City credit cards was adequate. However, supporting documentation needed to be improved. We reviewed all 18 months transactions to determine if a receipt or written affidavit was included with each credit card charge, and noted that 23 of the 148 charges (16%) totaling \$1,244.29 did not contain the receipt or other supporting documentation. While the official purpose of some expenditures may be inferred, lacking adequate documentation such as receipts and an explanation of the purpose, management cannot ensure that all expenditures are appropriate.

In addition, from our sample of 42 transactions totaling \$4,890.88, we

identified five credit card purchases that we do not believe had a clear public purpose. These included four meals totaling \$235.16 incurred while the cardholders were not in overnight travel status.

The four meals were charged to Other Operating Costs – Other Charges. A review of the Florida Department of Financial Services uniform accounting manual for municipalities shows that there are no accounting codes that would accurately reflect this type of expenditure. This is reflective of the fact that generally these types of purchases are not allowed in the expenditure of public funds. The City used this accounting code in the absence of any other code that would more accurately describe the transaction.

We noted that the City has made significant progress on both the documentation of expenditures and expenditures that are compliant with clear public purpose. Since April 2011 all expenditures have receipts or other appropriate documentation, and after July 2011, no expenditures were noted with questionable public purpose. These changes have been accomplished primarily through significantly tightened credit card controls and on-going communication with credit card users.

This report makes 18 recommendations for improvement in compliance and internal controls for the use of fuel and credit cards. The City Manager has been proactive in initiating action to address several of the issues we identified during the course of this audit.

BACKGROUND

We initiated the fuel program audit based on information we received concerning unusual fuel transaction patterns identified by Palm Beach County (PBC), Facilities Development and Operations, Fleet Management Division. We subsequently included a review of the credit card program in our scope.

OBJECTIVES, SCOPE AND METHODOLOGY

The scope of our audit covered controls over fuel and credit card use. The audit included sampling transactions that occurred between October 1, 2010, and March 31, 2012.

The primary audit objectives were to:

1. Review the fuel program internal controls and determine if weaknesses exist that could result in fraud, waste or abuse.
2. Determine whether the internal controls are adequate to ensure the integrity of the credit card program including eliminating credit card misuse, fraud, or other forms of waste and abuse.

This audit was conducted 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 findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

Our specific findings and recommendations are separated according to the specific programs: fuel program and credit card program.

FUEL PROGRAM

The City's Fiscal Year (FY) 2012 fuel appropriation budget is \$74,870. Fuel is obtained at Palm Beach County (PBC) fuel depots under an inter-local agreement. PBC fuel depots are controlled by a dispensing and monitoring system, the Ward Automated Fleet Management System (Ward system). The fuel program allows authorized City employees to fuel approved City-owned assets including vehicles, tractors, small equipment, and fuel storage containers. The City has 51 vehicles and tractors in their fleet that have a specific fuel asset card assigned, and three small equipment cards for fueling of small equipment (i.e. mowers, trimmers, chainsaws, etc.). Employee fuel access cards have been issued by PBC at the City's request and distributed by the City to eight employees. The fuel program is designed to dispense fuel to specific City owned assets by using both the fuel asset card and the fuel user card to activate the pump at the PBC fuel depot. Transactional data is captured at the point of fuel dispensing for accountability, billing, and monitoring purposes.

PBC Facilities Development and Operations-Fleet Management Division is not responsible for monitoring the City's fuel transactions; it is the City's responsibility to monitor the City's fuel program using data available from PBC's Ward system and additional means.

Our audit tested the controls related to the fuel program, including fuel asset cards, small equipment cards, and employee fuel user access cards. As part of our review of fuel card controls we performed an analytical review of higher risk transactions such as fueling during holidays, weekends, and before/after normal work hours. In addition, we conducted an analytical review of transactions with inconsistent data or data that indicated the likelihood of fraud, error, waste, or abuse. We concluded that the absence of comprehensive policies and procedures, poor practices in the use of fuel cards, and insufficient transaction monitoring all contributed to a weak control environment. This substantially increases the risk that improper fuel transactions could occur and go undetected.

FINDING (1): LACK OF COMPREHENSIVE CITY-WIDE POLICIES AND PROCEDURES CONCERNING THE FUEL PROGRAM

Adequate policies and procedures are not in place to govern the City's fuel program. The existing policy contains limited guidance that does not address all the key controls and procedures that need to be followed for proper transactions. Procedures have not been established to specify the authority and conditions for the issuance and return of fuel access cards, fuel asset cards or small equipment cards. Responsibilities for monitoring the fuel program and the related monitoring procedures have not been documented. Training requirements are not documented. An acknowledgement of the authorized uses of the fuel cards has not been developed for employees to sign.

Programs involving the expenditure of City funds should be governed by appropriate policies and procedures. There is an increased risk of intentional misuse, errors, or other irregularities occurring in the City's fuel program given the lack of comprehensive city-wide policies and procedures.

Recommendation:

(1) The City should develop a comprehensive fuel program policy and related procedures to address:

- **Authority and conditions for the issuance of fuel asset cards, small equipment cards and employee fuel user cards;**
- **Employee training and acknowledgement of responsibilities;**
- **Operational use of the cards;**
- **Recordkeeping, termination of a card (asset card, small equipment card and employee fuel user card); and**
- **Management monitoring of consumption and operating procedure compliance.**

Summary of Management Response:

(1) The City has contacted PBC-Fleet Management Division for assistance in developing a comprehensive fuel program policy. The City Manager and City Finance Department will determine the policy and procedure elements that need to be added or deleted from the current policy in order to more effectively govern the fuel program.

FINDING (2): INADEQUATE INTERNAL CONTROLS OVER FUEL CONSUMPTION

The City's fuel program was operated with several significant transactional control deficiencies that indicated a lack of due care in conducting and documenting fuel transactions with accurate and reliable information. These deficiencies, coupled with inadequate City management monitoring of the fuel program, created a weak control environment. Patterns of fuel transactions were not monitored so as to identify and

correct fuel card use that represented an unusual pattern of, or improperly completed, transactions.

PBC's Ward system is designed to operate following certain protocols as to how fuel cards are used and fuel transactions are conducted at the fuel depots. They are designed to ensure the integrity of the fueling transactions and provide a means to analyze the fuel transaction logs recorded in the system so as to provide some level of assurance that fuel transactions are for a valid business purpose. Those protocols include the following:

- Small equipment cards are issued for use on small equipment such as trimmers, chainsaws, push mowers, and small fuel containers. As such, individual transaction amounts using small equipment cards are expected to be low. Beginning in FY 2012, PBC established a 5 gallon limit for small equipment cards.
- Fuel asset cards are issued for specific assets such as passenger vehicles, vans trucks, buses and other equipment that have larger fuel capacities. Fuel asset cards are generally programmed with a limit on the maximum fuel that can be dispensed consistent with the fuel tank capacity of the assigned asset. Fuel asset cards should only be used to fuel the assigned asset.
- Employee fuel user cards are issued to employees who are authorized to dispense fuel from a PBC depot. An employee fuel user card is required along with either a small equipment or fuel asset card to activate the fuel pump. The transaction details are recorded including the name of the employee conducting the transaction. An employee fuel user card should only be used by the employee to whom it is assigned to ensure accountability for the transaction.
- When fuel asset cards are used the Ward system requires entry of the current odometer (mileage) reading. Accurate entries are critical to ensure that the analytical control features of the system can be fully utilized. For example, analytics can be run to ensure that the miles driven between fuel transactions are consistent with the miles per gallon ratings for that specific vehicle.

The four fueling practices included in Table 1 below are illustrative of the way fuel cards were used and fuel transactions were conducted by managers and staff that were contrary to the protocols listed above. These practices significantly reduce the capabilities of the system to function as the primary means by which management can control and monitor the fuel program. Our audit identified 390 of these types of transactions out of the total 1,886 transactions (21%) for the audit period, where if appropriate monitoring had been in place, would have been detected by City management, and the underlying control practices that created the recurrent weaknesses would have been corrected.

Table 1: Schedule of Transactions

	Transaction Issue	# Transactions Observed	Cause
2.1	Fueling with a small equipment card to the card maximum.	94	Employees were routinely using small equipment cards to fuel City vehicles and large equipment such as tractors (i.e. tractors) for which an individual fuel asset card had not been obtained. The City did not obtain appropriate fuel assets cards from PBC on a timely basis. As a result, employees improperly used the small equipment cards for fueling vehicles that should have had an assigned fuel asset card.
2.2	Fueling with a fuel asset card to the maximum assigned to that card.	130	A transaction stopped when the maximum assigned quantity was reached. An asset card for a vehicle with a lower fuel capacity was used on a higher capacity vehicle or the maximum capacity assigned to the fuel asset card is incorrect for that vehicle model.
2.3	Odometer inputs at time of fueling that were inconsistent with prior and subsequent entries, unchanged from prior entry, plugged figure (i.e. 100,000), or otherwise invalid.	109	Multiple transactions where it appeared that a vehicle was fueled with a fuel asset card assigned to a different vehicle, two vehicles with defective odometers that had multiple fuel transactions over the entire audit period, and transactions with erroneous odometer entries by the employee.
2.4	Fuel transactions that exceeded the capacity of the vehicle's tank.	57	Multiple transactions where it appeared that a vehicle was fueled with a fuel asset card assigned to a smaller capacity vehicle, an asset card where the incorrect fuel capacity was programmed into the system, or a vehicle plus "small" equipment or a fuel container were fueled on the vehicle asset card.

Analytic reports and automatic fuel pump suspension ("Prompt-Validate" functionality) triggered by unusual programmed transactions are available to the City from PBC's Ward system at no additional cost, however the reports and activation of the function were not requested by the City. If either of the monitoring tools had been utilized they would have detected and/or prevented patterns of unusual use, including those noted above.

We also noted that two department directors and a supervisor to whom cards had been issued allowed employees in their departments to independently use the director's/supervisor's fuel card to perform fuel transactions, another practice contrary to the protocols discussed above. This practice reduces accountability for fuel transactions in that the employee performing the fuel transaction is often not the individual whose assigned card is recorded in the system. If theft or waste of fuel were to occur, it may

not be possible to determine which City employee was responsible for the transaction(s) in question.

As a result of this practice, the fuel transaction logs showed, for FY 2011, three employees (the two department directors and one supervisor), accounted for 83% (19,255 gallons) of the City's total fuel consumption. If the fuel program was carried out within the proper protocols established for PBC's Ward system, such frequent and high individual fuel transaction activity would be considered unusual and prompt management follow up. In this case, it was not questioned by City management because it was accepted that multiple employees were using one employee's card.

The use of an employee's card by multiple employees was not tracked by the City until October 2011, after which manual logs were created for an employee to sign out a director's/supervisor's card, as well as record the transaction detail. Although we did not audit the data entries, we noted no evidence that the logs were reviewed by an employee's supervisor. In addition, the log for the Public Services Department, which had the largest fuel use during our audit period, was clearly incomplete and could not be relied upon to establish accountability. Maintaining accurate manual logs to provide accountability as to which employee is using a fuel user card can be difficult and inefficient. The manual logs that have been established capture much of the same data that the Ward system automatically records. As described above, the appropriate protocol for PBC's Ward system is for each employee authorized to dispense fuel to have an employee fuel user card assigned to them, which allows the automated system to assign accountability for each transaction, and apply analytic procedures to fuel use.

The City Manager, Director of the Parks and Recreation Department, and the Director of the Public Services Department each indicated they are unaware of any employee theft involving the fuel program during the audit period. However, given the lack of monitoring controls, combined with poor employee compliance with appropriate fueling procedures, we concluded that the control environment was significantly weakened and there exists a corresponding increased risk that unauthorized fuel transactions can occur and go undetected.

During the audit, the City began to take action to correct several of the internal control weaknesses that we identified. Effective November 2011, the City added 17 fuel asset cards, including cards specific to the three tractors that existed in the fleet during the audit period. Fueling of the three tractors significantly contributed to the heavy volumes incurred on the small equipment cards in FY 2011. In analyzing fuel transactions after the 17 fuel asset cards were added, we noted that the average volume per month on the two primary small equipment cards dropped by 41% and 70%, respectively, as fuel charges were incurred on the newly assigned specific asset cards.

These are good first steps, however additional procedures, and practices need to be put in place to establish an effective control environment that can adequately safeguard the fuel program from fraud, waste, and abuse.

Recommendations:

Implement a comprehensive system of controls over the fuel program:

- (2) Train all employees on the City fuel program, including how to properly complete a fuel transaction, and implement sanctions for failure to adhere to the policies and procedures recommended under Finding 1.**
- (3) Require all employee fuel card users to sign an acknowledgement that they understand the prescribed procedures, obligations and stewardship responsibilities of being an authorized employee fuel user.**
- (4) Issue employee fuel cards to each employee who is authorized to use a City fuel card as part of their required duties.**
- (5) Store fuel asset cards securely in or on the respective asset to minimize the possibility of an employee using an incorrect fuel asset card in the dispensing process.**
- (6) Within two days of the acquisition of a new asset, request that PBC Facilities-Fleet Management Division promptly issue a fuel asset card to the City in order to allow the recording of all fuel transactions associated with the asset.**
- (7) Repair broken or malfunctioning odometers on City asset vehicles as soon as possible or take the vehicle out of service until repairs can be completed.**
- (8) Activate the "Prompt-Validate" feature available through PBC Facilities-Fleet Management Division.**
- (9) Request that PBC Facilities-Fleet Management Division provide the monthly detailed usage and analytics reports to the City. Ensure that the City Manager or his designee follow-up on any fuel transactions identified as exceptions.**

Summary of Management Response:

- (2) After the finalization of the City fuel program policies and procedures, and receipt of additional fuel user cards, the City will conduct a training session for all City employees who use the program.**
- (3) All employee fuel users holding a Ward system fuel user card will be required to sign an acknowledgement of responsibility.**

- (4) The City is in the process of requesting additional fuel user cards from PBC Facilities-Fleet Management Division. The practice of delegating fuel user cards to other employees to use will cease. As an added control, fuel users will be required to sign out/sign in their assigned card, and the respective department Director will be responsible for custody and monitoring of all cards issued to fuel users within their department.
- (5) With the exception of buses, because the door cannot be secured, fuel asset cards will be stored with the assigned vehicle. The practice of using an asset card not assigned to the vehicle will stop immediately. Department Directors will be responsible for monitoring employee compliance.
- (6) The City has requested and received fuel asset cards for vehicles which previously did not have a card assigned. The City will work with PBC Facilities-Fleet Management Division to obtain a card for any new assets in the future on a timely basis.
- (7) The vehicles with malfunctioning or inoperative odometers are very old and experiencing ongoing repair issues. These vehicles will be sold shortly. In the future, departments will be required to repair defective odometers immediately.
- (8) The City has requested that PBC Facilities-Fleet Management Division activate the "Prompt-Validate" function.
- (9) PBC Facilities-Fleet Management Division has been requested to provide the monthly analytical reports. The City Finance Department will review the reports and require explanations for variances/exceptions from Department Directors. Department Directors will be required to review and signoff on their department's monthly fuel usage. The City will review the analytical spreadsheet developed by the Inspector General's audit team for potential additional analytics to use in monthly reviews.

FINDING (3): NEED FOR REVIEW OF TAKE HOME VEHICLE ASSIGNMENTS AND TAX COMPLIANCE REQUIREMENTS

During our testing of fuel transactions, we identified that a City-owned Ford F-150 truck had 19 fuel transactions out of the Pahokee area. Upon follow-up, we were informed that the vehicle is assigned to the Director of the Port Mayaca Cemetery. We noted that the director commutes from his home to and from work in the City-provided vehicle. Upon further inquiry, we were informed by the City Manager that five additional employees have been assigned take home vehicles under the City policy. While the assignment and use of take home vehicles was not in the scope of our audit, we have made the following observations:

- The round trip mileage of the Cemetery Director's daily commute is approximately 60 miles, which is in addition to travel within the Cemetery, as well as travel incidental to Cemetery operations. During the 18 months reviewed in the scope of this audit, the assigned vehicle consumed 1,778.70 gallons of fuel, and was also insured and maintained by the City.
- The justification for each take home vehicle assignment has not been documented. Documentation has not been requested or maintained by vehicle assignees such as a log of business use versus personal miles driven or the amount or nature of official business conducted outside of normal business hours that would support the need for an assigned take home vehicle.

In the current environment of high fuel costs and tight budgets, the cost/benefit of assigning take home vehicles compared to other alternatives such as the use of pool vehicles or personally owned vehicles with mileage reimbursement needs to be thoroughly analyzed and considered.

In our discussion with the City Finance Department, we also noted a lack of clarity over the City's compliance responsibilities concerning IRS regulations pertaining to tax treatment and reporting of employer provided vehicles involving commuting. The City Finance Department indicated they are uncertain if the current assignments give rise to taxable fringe benefits requiring reporting. Our review of the current IRS guidance available to state and local governments of the taxability of fringe benefits indicated that take home vehicles that include commuting to and from work have very specific requirements that need to be met in order for some of all of the value of this benefit to be excluded as additional income to the employee.

Recommendations:

- (10) The City should review the justification for assigned take home vehicles including the City's needs and the associated costs for fuel, maintenance cost, depreciation in value, and potential liability for property damage and personal injury, and document the results of the analysis.**
- (11) Determine the tax compliance responsibilities and appropriate fringe benefit valuations, if required, based on IRS Regulations and references such as The Taxable Fringe Benefits Guide, created by the Internal Revenue Service Office of Federal, State and Local Governments (FSLG), and consultation with advisors.**

Summary of Management Response:

- (10) The City is in the process of re-examining the assigned take home vehicles. At least four of the six vehicles will no longer be on take home status effective the first day of the next fiscal year.**

(11) This issue is being reviewed and the City will comply with any requirements noted.

CREDIT CARD PROGRAM

The City has authorized credit cards for use by City Commissioners and certain employees, for City-related expenditures. Credit card use has been minimal, as most purchasing is via approved purchase orders rendered in advance. The City's credit cards are used incidentally, often related to overnight travel. Spending on City-authorized credit cards totaled \$19,736 for the period of October 1, 2010 through March 31, 2012. There was a monthly average of eight transactions per month and 148 transactions in total for the period. Ten credit cards were issued and outstanding at the end of audit period, with a total combined credit line of \$10,000. The amount charged each month is paid by the City so as not to incur finance charges.

FINDING (4): INADEQUATE DOCUMENTATION OF EXPENDITURES

The current credit card policy, approved by the City Commission in September 2011, states that the credit cardholder will submit receipts within two days after authorizing transactions on their assigned City of Pahokee credit card. However, in the event the receipt is missing or lost, a written affidavit explaining the lost receipt and the legitimacy of the expense must be submitted in lieu of the original receipt.

The testing of our initial sample indicated four of 15 transactions (27%) totaling \$268.86 did not have a receipt or "written affidavit" explaining the absence of documentation. Due to the high incidence of inadequate documentation in our sample and relatively low number of credit card transactions overall, we reviewed all monthly credit card reconciliation worksheets. A reconciliation worksheet contains the detail of each transaction, and is completed by the City Senior Accountant, who notes on each worksheet if the correct documentation was provided. We noted that 23 of the 148 total transactions (16%), totaling \$1,244.29, did not have a receipt submitted by the credit cardholder, as acknowledged by the City Finance Department.

We were informed that during the City Finance Department's monthly reconciliation and review process, the City Finance Department communicates to the cardholder that missing receipts must be provided. However, it has been the practice that after several attempts to obtain additional documentation, the credit card balance is paid, lacking the documentation, without additional follow-up. In such cases, the credit cardholder is not in compliance with the documentation requirements established in the City of Pahokee's credit card policy. Often, a single line item total on a credit card statement is made up of multiple items on a receipt, each of which should be verified during review as to the public purpose for the expenditure. Due to the lack of documentation, we were unable to substantiate the business purpose of the purchases, although we noted that in general such charges were not inconsistent with other charges where a receipt was provided.

From April 2011 through to the end of our audit period of March 2012, compliance with the City's receipt documentation requirements has significantly improved. For all 49 transactions conducted during that period, totaling \$12,115.84, we noted that there were receipts or other appropriate documentation. The improvement is a result of tightened credit card controls implemented by the City Commission, City Manager, and City Finance Department, including checking out/checking in the credit cards immediately prior to and after authorized travel, insistence on submitting required documentation, and review of the credit card statement by the City Commission.

Recommendations:

- (12) Periodically, management needs to re-emphasize to cardholders the City policy that requires submission of receipts or other supporting documentation and the Finance staff need to ensure that supporting documentation is provided in a timely manner or that a completed lost receipt affidavit is submitted.**
- (13) Establish sanctions in the credit card policy and procedures for non-compliance with the prescribed documentation requirements (i.e. suspending card privileges).**

Summary of Management Response:

- (12) Each time the credit card is signed out by the cardholder, a copy of the policy will be provided. The City Finance Department will require that supporting documentation.**
- (13) The City Manager will discuss establishing appropriate sanctions with the City Commissioners.**

FINDING (5): CREDIT CARD EXPENDITURES WITH QUESTIONABLE PUBLIC PURPOSE

After we selected and tested our initial random sample of 15 transactions, we expanded our sample to select and review transactions with a potential for having a questionable public purpose, such as charges for meals not related to overnight travel. As a result, we reviewed the credit card statements, and selected 27 additional items that appeared to have a higher likelihood of a questionable public purpose based on the vendor or description of the charge.

In the samples, we noted five credit card charges totaling \$311.66 incurred on the City of Pahokee account that we question as to the public purpose or benefit served. One expenditure for gasoline in the amount of \$76.50 was initiated by a City Commissioner during a time when a car allowance was in place to cover gasoline costs. We were informed that the Commission member was sworn into office subsequent to the establishment of the car allowance and did not fully understand the provisions of the allowance.

Four expenditures totaling \$235.16 were for meals charged by two other Commission members before or after official City business meetings. Meals, except while on official overnight travel, are customarily not reimbursed or meal allowances paid. We noted that the State of Florida specifically prohibits reimbursement of meals during non-overnight travel, whereas Palm Beach County does not pay meal allowances for non-overnight travel. While the City is not bound by the State or County guidelines, they both provide a good frame of reference for determining whether this expenditure meets the test of having a valid public purpose. A basic tenet of Florida State law that applies to all local government entities is that public funds may only be used for a public purpose.

Subsequent to our audit finding, the City Commission approved a Commissioner's meal expenditure of \$183.42, which had been charged to a City credit card in July 2011 and was noted in our audit sample, during the Commission meeting on May 22, 2012. We were informed that the Commissioner had previously disclosed this expenditure, during a Commission meeting after the expenditure was incurred, while giving a trip report to the Commission. The meal expenditure was for the Commissioner and seven City staff following a Glades-related association meeting that was held approximately 80 miles outside of Pahokee. There were total of ten City representatives who attended the gathering for the meal. The Commissioner used her City credit card to pay for her meal and the meals for the staff. The two Directors in attendance were required to pay for their own meals. The City of Pahokee does not have a comprehensive travel policy in place that addresses entitlement to meals (per diem, allowance, or actual cost) during overnight or non-overnight travel. Notwithstanding the City Commission's vote to approve this particular meal expenditure, we do not believe that meals unrelated to overnight travel have a clear public purpose or benefit.

City of Pahokee funds should only be expended for clear public purposes. When funds are expended for a questionable public purpose, the funds become unavailable for use for valid public purposes. However, we did not discover any City credit card expenditures of questionable public purpose occurring after July 2011. We attribute this in part to the tightening of controls that we discussed under Finding 4.

Recommendations:

- (14) The City Commission should consider whether any non-overnight meals serve a public purpose or benefit and require the City Manager to enhance existing policies concerning unallowable expenditures.**
- (15) The City Manager should consider requiring reimbursement for the cost of the identified meals and fuel that do not appear to have a clear public purpose.**
- (16) Re-establish a comprehensive travel policy that is consistent with expenditure control objectives and in compliance with applicable Florida Statutes, including the following minimum elements:**

- Responsibility for budgeting, submitting, reviewing, approving travel requests, travel allowance, travel advances and reimbursement of allowable travel expenditures;
- Documentation requirements; and
- Travel expenditure reporting requirements.

Summary of Management Response:

(14) The City policy on this matter will be discussed and amended based on the decision of the City Commission.

(15) The City Commission has approved the four meal charges. The City has been reimbursed for the fuel cost.

(16) A comprehensive travel policy will be established.

FINDING (6): SALES TAX EXEMPTION RECOVERY

Florida Statute Title XIV, Chapter 212.08(6) provides sales tax exemption status on purchases made by a government employee on behalf of a municipality. In addition, the City's current credit card policy states, "The card should be used with the tax-exempt form so that sales tax is not charged for City related purchases. Any sales tax charged on the credit card will be charged back to the employee".

Compliance or non-compliance with the state sales tax exemption can only be determined when supporting documentation is submitted for review. From our initial sample of 15 transactions, nine transactions where receipts were available were reviewed to determine if sales tax was improperly paid. Based on our review, we noted three transactions (33%), where sales taxes in the total amount of \$34.80 was improperly paid and not subsequently recovered.

We were informed that some credit cardholders have used the City credit card without presenting the tax-exempt form at the point of purchase. The City Finance Department should have detected that sales tax was improperly paid, and notified the cardholder of their obligation to reimburse the City.

Recommendations:

(17)The City should request reimbursement from the vendors for the \$34.80 in sales tax paid.

(18)The City should periodically re-issue tax exemption forms to all credit cardholders, and implement effective controls to ensure that in the event state sales taxes are paid, the monies are recovered.

Summary of Management Response:

(17) The City is in contact with the vendors regarding reimbursement to the City.

(18) The City Finance Department will provide a tax exemption form each time a PO is approved or a credit card is signed out. Department Directors have been emailed a copy of the form.

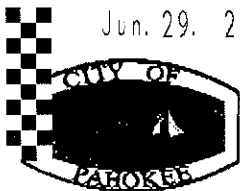
ATTACHMENTS

Attachment 1 – Complete Management Response

ACKNOWLEDGEMENT

The Inspector General's audit staff would like to extend our appreciation to the City of Pahokee management and staff for the cooperation and courtesies extended to us during this audit.

This report is available on the OIG website at: <http://www.pbcgov.com/OIG>. Project conducted by J. Lynch, Auditor II, J. Corinella, Auditor II, and J. Bowers, Auditor III. Please address inquiries regarding this report to D.Schindel, Director of Auditing, by email at inspector@pbcgov.org or by telephone at (561) 233-2350.



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Office of the
City Manager

July 26, 2012

J.P. Sasser
Mayor

Keith Babb Jr.
Vice Mayor

Allie H. Biggs
Commissioner

Felisia C. Hill
Commissioner

Diane L. Walker
Commissioner

Derrek Moore
City Manager

Anika Sinclair
City Clerk

Gary Brandenburg
City Attorney

Herbert Crawford,
Director
Parks and Recreation

Art Ivester
Director
Port Mayaca
Memorial Gardens
Cemetery

Alvin Johnson
Director
Public Services

Office of the Inspector General
Palm Beach County
Dennis Schindel, Director of Audit

Dear Mr. Schindel:

RE: AUDIT REPORT: 2012-A-003
CITY OF PAHOKEE
CREDIT CARD & FUEL CARD PROGRAMS

Attached please find the City of Pahokee's responses to subject report under your cover letter dated June 8, 2012.

The City agrees that the recommended changes are necessary and has either made those changes or will be implementing changes in accordance with your recommendations and our responses attached herewith. Specific corrective actions and the estimated time for completion of those changes have also been provided in our responses.

Should you have any additional input or suggestions, please feel free to forward those to my attention. On behalf of the City of Pahokee's Commission and staff, we want to thank you for your patience and support throughout this process. Your staff and their input have been very helpful and many of the City of Pahokee's policies and procedures have been or will be amended and strengthened to reflect the most recent laws and trends in municipal and related governmental and business entities.

Sincerely,

Derrek A. Moore
City Manager

Review of City of Pahokee Fuel Program and Credit card Program

[General comments]

City of Pahokee Management Response to Findings:

FINDING (1): LACK OF COMPREHENSIVE CITY-WIDE POLICIES AND PROCEDURES CONCERNING THE FUEL PROGRAM

- (1) The City has contacted Palm Beach County-Fleet Management Division for assistance in developing a comprehensive fuel program policy. The City will also contact other municipalities to review their policies and procedures to assist with this process. The City Manager and City staff will develop the policy and procedure elements that need to be added or deleted from the current policy in order to more effectively govern the fuel program.**

Target Completion Date: October 1, 2012 (Beginning of next fiscal year)

FINDING (2): INADEQUATE INTERNAL CONTROLS OVER FUEL CONSUMPTION

- (2) After the finalization of the City fuel program policies and procedures, and receipt of additional fuel user cards, the City will conduct a training session for all City employees who use the program.**

Target Completion Date: October 1, 2012

- (3) All employee fuel users holding a Ward system fuel user card will be required to sign an acknowledgement of responsibility.**

Target Completion Date: July 20, 2012

- (4) The City is in the process of requesting additional fuel user cards from PBC Facilities-Fleet Management Division. The practice of delegating fuel user cards to other employees to use will cease. As an added control, fuel users will be required to sign out/sign in their assigned card, and the respective department Director will be responsible for custody and monitoring of all cards issued to fuel users within their department. These logs will be turned in to the Finance department by the 10th of each month following the month the fuel is used.**

Target Completion Date: July 13, 2012

- (5) With the exception of buses, because the door cannot be secured, fuel asset cards will be stored with the assigned vehicle. The practice of using an asset card not assigned to the vehicle will stop immediately. Department Directors will be responsible for monitoring employee compliance. A log will be maintained in each vehicle documenting, a minimum of the following items: a) Date, b) Mileage, c) Current odometer reading, d) Signature or initials of user, e) Number of gallons, f) Reason or purpose for fuel.

Target Completion Date: July 1, 2012

- (6) The City has requested and received fuel asset cards for vehicles which previously did not have a card assigned. The City will work with PBC Facilities-Fleet Management Division to obtain a card for any new assets in the future on a timely basis.

Target Completion Date: Immediately

- (7) The vehicles with malfunctioning or inoperative odometers are very old and experiencing ongoing repair issues. These vehicles will be sold shortly. In the future, departments will be required to repair defective odometers immediately.

Target Completion Date: Immediately

- (8) The City has requested that PBC Facilities-Fleet Management Division activate the feature.

Target Completion Date: July 1, 2012

- (9) PBC Facilities-Fleet Management Division has been requested to provide the reports. The City will review the spreadsheet used by the Inspector General's audit team for potential additional analytics to use in monthly reviews. The City Finance Department will review the reports and require explanations for variances/exceptions from Department Directors. Department Directors will be required to review and signoff on their department's monthly fuel usage.

Target Completion Date: July 1, 2012

FINDING (3): NEED FOR REVIEW OF TAKE HOME VEHICLE ASSIGNMENTS AND TAX COMPLIANCE REQUIREMENTS

- (10) The City is in the process of re-examining the assigned take home vehicles policy to determine the vehicles that will no longer be allowed to be taken home. The new take home policy will be effective the first day of the next fiscal year (October 1, 2012).

Target Completion Date: October 1, 2012

- (11) This issue is being reviewed and the City will comply with any requirements noted.

Target Completion Date: October 1, 2012

FINDING (4): INADEQUATE DOCUMENTATION OF EXPENDITURES

- (12) Each time the credit card is signed out by the cardholder, a copy of the policy will be provided. The City Finance Department will require that supporting documentation. The City Finance Department will also provide a tax exemption form each time the credit card is checked out.

Target Completion Date: October 1, 2012

- (13) The City Manager will discuss establishing appropriate sanctions with the City Commissioners.

Target Completion Date: July 30, 2012

FINDING (5): CREDIT CARD EXPENDITURES WITH QUESTIONABLE PUBLIC PURPOSE

- (14) The City policy on this matter will be discussed and amended based on the decision of the City Commission.

Target Completion Date: October 1, 2012

- (15) The City Commission has approved the four meal charges. The City has been reimbursed for the fuel cost.

Target Completion Date: Completed

(16) A comprehensive travel policy will be established.

Target Completion Date: October 1, 2012

FINDING (6): SALES TAX EXEMPTION RECOVERY

(17) The City is in contact with the vendors.

Target Completion Date: July 30, 2012

(18) Department Directors have been emailed a copy of the tax exemption form. Each time a Purchase Order is approved or a credit card is signed out, the tax exempt form will be made available for their use.

Target Completion Date: Completed