INTERNAL AUDITOR'S REPORT

SOUTH CAROLINA
DEPARTMENT OF TRANSPORTATION

COLUMBIA, SOUTH CAROLINA

RISK AND CONTROL ASSESSMENT
SCDOT FUEL CARD ACTIVITY

REPORT DATE: JULY 31, 2017

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RISK AND CONTROL ASSESSMENT
SCDOT Fuel Card Activity

OSA

SOUTH CAROLINA OFFICE OF THE STATE AUDITOR

INTERNAL AUDIT SERVICES

July 31, 2017

CONTENTS

1 FOREWORD

AUTHORIZATION
The South Carolina Office of the State Auditor established the Internal Audit Services division (IAS) pursuant to South Carolina Code Section 57-1-360 as revised by Act 275 of the 2016 legislative session. IAS is an independent, objective assurance and consulting function designed to add value and improve the operations of the South Carolina Department of Transportation (SCDOT). IAS helps SCDOT to achieve its objectives by bringing a systematic, disciplined approach to evaluating the effectiveness of risk management, internal control, and governance processes and by advising on best practices.

STATEMENT OF INDEPENDENCE
To ensure independence, IAS reports administratively and functionally to the State Auditor while working collaboratively with SCDOT leadership in developing an internal audit plan that appropriately aligns with SCDOT's mission and business objectives and reflects business risks and other priorities.

REPORT DISTRIBUTION
This report is intended for the information and use of the SCDOT Commission, SCDOT leadership, the Chairman of the Senate Transportation Committee, the Chairman of the Senate Finance Committee, the Chairman of the House of Representatives Education and Public Works Committee, and the Chairman of the House of Representatives Ways and Means Committee. However, this report is a matter of public record and its distribution is not limited.

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ACKNOWLEDGEMENT
IAS wishes to thank members of management and staff in the Maintenance Division for their cooperation in assessing risks and developing actions to improve internal control and enhance operating performance.

2 EXECUTIVE SUMMARY

Activity Assessed: Fuel Cards

Responsible Division: Maintenance

Number of Processes in the Activity: 6

Number of Processes Assessed in this Engagement: 1

Risk Exposure to SCDOT:

☐ Low   ☑ Medium-Low   ☐ Medium   ☐ Medium-High   ☐ High

Risk Management Observations:

1. Exception reporting parameters flag too many false positives (detailed on page 9).

2. Exception reports are neither consistently used nor well-understood thereby rendering this control for identifying and investigating improper card use ineffective (detailed on page 10).

3. Fuel card system records between the card vendor (Mansfield) and SCDOT HMMS have numerous discrepancies (detailed on page 12).

Performance Management Opportunities:

1. Fuel card policies and procedures are outdated and do not provide adequate instruction for performing fuel card processes (detailed on page 13).

③ INTERNAL AUDITOR'S REPORT

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SOUTH CAROLINA OFFICE OF THE STATE AUDITOR

George L. Kennedy, III, CPA
State Auditor

July 31, 2017

Ms. Christy A. Hall, Secretary of Transportation
      and
Members of the Commission
South Carolina Department of Transportation
Columbia, South Carolina

We have completed a risk and control assessment of the South Carolina Department of Transportation's (SCDOT's) Fuel Card activity. The objective of this assessment was to contribute to the improvement of risk management by evaluating SCDOT's exposure to risks and the controls designed by Management to manage those risks. Our review included two aspects:

- Facilitation of Management's assessment of risks and controls for providing reasonable assurance that significant risks have been identified and that controls are adequately designed to manage risk to an acceptable level, and
- Tests of internal controls over significant risks to determine whether the controls are operating effectively.

The results of both Management's assessment and our tests of controls are included in the *Risk and Control Assessment Results* section beginning on page 7. While our engagement was primarily focused on risk management, we have identified other matters that may represent opportunities for cost savings, revenue enhancement, process improvement, strengthened control environment, or more effective performance. These matters are detailed in the *Performance Management Opportunities* section on page 13.

We planned and performed the engagement with due professional care in order to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions. Our observations as a result of our testing are described in the *Risk and Control Assessment Results* section beginning on page 7 of this report.

George L. Kennedy, III

George L. Kennedy, III, CPA
State Auditor

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4 ENGAGEMENT OVERVIEW

4.1 BACKGROUND

Fuel cards are issued for any piece of equipment that has a fuel tank of 5 gallons or greater. Equipment does not have to have a tag on it to have a fuel card assigned to it. There are two types of fuel cards: proprietary cards are cards that can only be used at State-owned fuel stations; WEX (Wright Express) cards are fuel cards that are accepted by participating retail locations. Equipment will have one or the other type depending on the use of the equipment. However, SHEP (State Highway Emergency Program) trucks may have both a proprietary card and a WEX card issued to them. SCDOT has approximately 5,300 fuel cards of which approximately 3,300 are proprietary and the remaining 2,000 are WEX.

Mansfield Oil Company in conjunction with Wright Express is the retail card contractor for fuel purchases for SCDOT. Authorized employees can access transactional data via Mansfield's website.

New card and replacement card requests are managed by the fuel card administrator as part of the Supply and Equipment Office on Shop Road in Columbia. Fuel cards are requested by Equipment Depot employees as a part of the preparation for issuing new equipment. The Equipment Depot is a function within the Supply and Equipment Office. Fuel cards are to be turned in to the Equipment Depot at the end of the life cycle of the equipment. The Supply and Equipment Depot will also process requests for lost or damaged replacement cards. County and district employees are the primary users of State issued fuel cards. It is the District Mechanical Engineer's responsibility to ensure cards are used appropriately and discrepancies are reviewed and corrected.

4.2 OBJECTIVES

Management's objectives with the Fuel Card activity are to ensure that fuel cards are properly issued to authorized personnel and are used only for bona fide SCDOT purposes. Our objective was to facilitate management's assessment of risks that threaten the achievement of its objectives and to assess the effectiveness of controls designed to manage those risks to an acceptable level.

4.3 SCOPE

The Fuel Card activity is comprised of six processes as follows:

	Process	Significance	Included in Scope
1	Fuel card use	Medium	X
2	Initiate and process new cards for equipment	Low	
3	Initiate and process driver PIN (personal identification number)	Low	
4	Deactivation of PIN	Low	
5	Process replacement cards for cards that are reported lost or stolen	Low	
6	Process cancellation of cards for disposed equipment	Low	

Using weighted risk factors, we ranked each process' significance on a scale of low, medium, and high. We determined that our assessment should be focused on only processes of medium and high significance to SCDOT. Therefore, our scope included the process marked in the table with its activities and transactions for the period January 1, 2016 to June 30, 2016.

4.4 METHODOLOGY

For the significant process included in the engagement scope, we performed the following procedures:

1. We facilitated Management's completion of a process outline that documented the steps in the process and the individuals responsible for those steps.

2. We facilitated Management's completion of a risk and control matrix used to:
    a. identify risks which threaten process objectives;
    b. score the risks as to their consequence and likelihood of occurrence;
    c. determine if controls are adequately designed to manage the risks to within the risk appetite; and
    d. propose design improvements to controls when risks are not managed to within the risk appetite.

3. We observed the discussion by key process owners and other subject matter experts performing the steps in procedure 2. We evaluated Management's assessment and made suggestions to improve the assessment or introduce additional risks. We believe that Management's assessment was reasonable and comprehensive.

4. We tested key controls for risks with inherent scores of 9 and above [scale of 1 (low) to 25 (high)] to determine if the controls are operating effectively. Testing included inquiry, observation, inspection of documentation, and re-performance of process steps.

5. We developed observations based on the assessments of controls which are not adequately designed and/or operating effectively.

6. We collaborated with Management to develop action plans to improve control design and/or operating effectiveness.

7. We collaborated with Management to identify opportunities and develop action plans for improving performance.

4.5 CONCLUSION

In our opinion, based on our evaluation of Management's assessment of risks and controls and based on our testing of key controls, internal controls are adequately designed but are not operating effectively, as noted in our observations, to manage the significant risks associated with the Fuel Card activity to within a prudently acceptable level. Overall risk exposure to SCDOT for this activity is assessed as medium-low.

4.6 FOLLOW-UP ON MANAGEMENT ACTION PLANS

We will follow up with Management on the implementation of the proposed actions on an ongoing basis to ensure they are effectively and timely implemented. We will provide the Commission and Senior Management with periodic reports on the status of Management Action Plans and whether those actions were effectively and timely implemented to reduce risk exposure to an acceptable level.

5 RISK AND CONTROL ASSESSMENT RESULTS

Overall Risk Exposure to SCDOT for this Activity

High
Medium-High
Medium
Medium-Low
Low
Acceptable

Fuel Card Activity
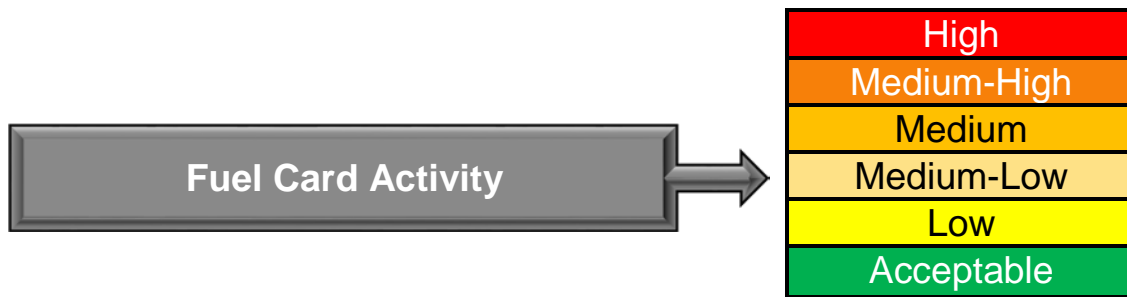
Risk and Control Assessments by Process

	Process	Detailed in Section	Overall Control Assessment	Process Risk Exposure
1	Fuel card use	5.1	Controls are adequately designed but are not operating effectively.	**Medium-Low**
2	Initiate and process new cards for equipment	Not included in Scope		
3	Initiate and process driver PIN (personal identification number)	Not included in Scope		
4	Deactivation of PIN	Not included in Scope		
5	Processes replacement cards for cards that are reported lost or stolen	Not included in Scope		
6	Process cancellation of cards for disposed equipment	Not included in Scope		

5.1 PROCESS 1 FUEL CARD USE

Process Objectives

1.   To ensure that fuel cards are used only for authorized purposes and that fuel cards provide for the purchase of fuel without delay.

Summary of Significant Process Risks and Controls

	A	B	C	E	F	G	H
	SIGNIFICANT RISKS	INHERENT RISK SCORE (Before Considering Controls)	RESIDUAL RISK SCORE (After Considering Design of Controls)	MANAGEMENT'S ASSESSMENT OF CONTROL DESIGN	KEY CONTROL(S) TESTED BY INTERNAL AUDITOR	INTERNAL AUDITOR ASSESSMENT OF CONTROL EFFECTIVENESS	CURRENT RISK EXPOSURE TO SCDOT
		1 = Low 25 = High Risk Appetite = 4 or Less (See Scoring Matrix in Appendix A)					
1	Card used for unauthorized purchase	9	3	Adequate	1. Exception Reports are reviewed for abnormalities; employees held accountable for misuse	Ineffective	Medium-Low
					2. Reconciliation between Mansfield billing and HMMS is performed to ensure only authorized cards associated with assigned equipment are used	Ineffective	

Observations on Control Design and Effectiveness

Control 1 – Exception Reporting

The Mansfield website provides daily fuel card transactions. Because there are thousands of transactions each week, an effective supervisory review is not practical. To overcome this constraint, Mansfield also creates daily exception reports that are automatically emailed to designated SCDOT supervisors. The exception report is designed to flag transactions that appear to be for questionable purchases and allows management to perform an effective risk-based review.

In September 2010, Mansfield, SC State Fleet Management, and SCDOT management conducted exception report training for SCDOT District staff. The purpose of the training was to demonstrate tools, methods and resources available to manage fuel spend and follow up on transactions that are identified as exceptions to the known rules. The training document explains the reason for the exception and corrective action to take. It also outlines the weekly and monthly requirements of the fuel managers for reviewing transactions and submitting reports along with explanation for exceptions to the District Mechanical Engineer.

There are approximately 12 different exceptions codes. Examples of exceptions codes are "after hours' transactions", "mpg too low", "could not calculate mpg", and "multiple fueling". To ensure accurate reporting, Mansfield's system relies on input of odometer and hour meter readings by fuel card users. Follow-up by management is essential to determine whether exceptions occurred due to improper purchases or user input error.

Observation 5.1 E1   Exception Parameters

The percentage of transactions flagged as exceptions has significantly increased since 2010. Per the 2010 training material, approximately 6% of the monthly transactions were exceptions. The goal was to get these exceptions down to 1% or less through training and follow-up. Having such a goal allows management to analyze exceptions when they exceed a preset percentage. We noted a significantly larger percentage of exceptions. Following is a recap for January 2016 to June 2016:

Month	Total Transactions	Number of Exceptions	Percentage of Exceptions
January	19,563	6,761	34.56%
February	18,954	5,018	26.47%
March	21,090	4,619	21.90%
April	19,921	4,672	23.45%
May	19,179	4,641	24.20%
June	22,219	5,613	25.26%

We determined that a significant number of exceptions were attributable to false positives (i.e. appropriate purchases that were flagged as exceptions). For example, fuel purchases for SHEP vehicles were flagged as "after hours" even though that is when those vehicles are in operation. The current exception parameters should be reviewed and adjusted to ensure that only legitimate exceptions are flagged. The current reported high volume of exceptions requires time-intensive analysis and therefore has become a disincentive to using exception reporting as a control. Given the nature of SCDOT's fuel card purchases, a goal of 1% exceptions may be unrealistic. However, an average of 26% over six months is extensive. Due to the inconsistencies in report review, we did not test for improper fuel purchases.

Management Action Plan (MAP) 5.1 E1	
Determine an appropriate goal for the percentage of exceptions. Evaluate current exception parameters in order to ensure they are appropriate in achieving the goal. Establish a committee to perform this on a regular basis.	
MAP Owner:	David Cook
Division:	Maintenance
Scheduled Date:	12/31/17

Observation 5.1 E2   Exception Report Analysis and Follow-up

Exception reports are neither consistently used nor well-understood. The exception training outlined the weekly responsibilities of the fuel card administrator and the monthly responsibilities of the District Mechanical Engineer. We surveyed county and district employees to obtain feedback about the exception report. Seventy-one percent of the county employees that responded stated that they performed a monthly review. Fewer false positives, more training, better reports and written procedures were cited as ways to improve the process. Twenty-two percent of district employees who were surveyed were not aware of this exception report. Twenty-five percent of district respondents did not feel that the report was useful and/or meaningful primarily due to too many false positives. Updated training on exception report analysis and follow-up should be provided to all fuel card administrators. Analysis and follow-up should be performed using a risk-based approach for exceptions that exceed a threshold or become a trend. Follow-up on exceptions should include counseling fuel card users and holding them accountable for any improper purchases or data input errors.

Management Action Plan (MAP) 5.1 E2a	
Review existing training to ensure that it is comprehensive and current covering appropriate card use, data input, exception report analysis, and documented follow-up.	
MAP Owner:	David Cook
Division:	Maintenance
Scheduled Date:	3/31/18

Management Action Plan (MAP) 5.1 E2b	
Maintain a training log of fuel card users and administrators to document who has completed the training.	
MAP Owner:	David Cook
Division:	Maintenance
Scheduled Date:	3/31/18

Management Action Plan (MAP) 5.1 E2c	
Review list of fuel card administrators in order to ensure they are current.	
MAP Owner:	David Cook
Division:	Maintenance
Scheduled Date:	8/31/17

Management Action Plan (MAP) 5.1 E2d	
Add the exceptions report to the QMT (Quality Maintenance Team) review. Each county is reviewed every other year with results reported to the District Engineering Administrator (DEA) responsible for the county and also to headquarters Maintenance division management.	
MAP Owner:	David Cook
Division:	Maintenance
Scheduled Date:	7/1/18

Control 2 – Tracking of Cards

The SCDOT Maintenance Division uses HMMS (Highway Maintenance Management System) to track and record usage information for equipment including fuel card information and fuel purchases. At the time of this assessment, there was not an interface between Mansfield and HMMS. Information is manually entered in HMMS. Errors in the assignment and usage of fuel cards can be identified when HMMS data is compared to the Mansfield purchase report file. This comparison is not routinely being performed.

Observation 5.1 E3 Fuel Card Record Discrepancies

We noted numerous discrepancies in the fuel card records between Mansfield's fuel purchase report and HMMS. This included non-matching fuel card numbers and card type (WEX and Proprietary) between systems; physical cards not matching card numbers and equipment assigned in the systems; and active cards shown as inactive. We informed the Director of Supply and Equipment. Upon further investigation, the Director acknowledged there were numerous differences between the two records and immediately took steps to correct the information in HMMS.

SCDOT has the tools and systems available to be able to provide accurate information and analysis on fuel card usage. However, processes and procedures to ensure consistent and accurate reporting of cards and assets on Mansfield and HMMS should be developed. The systems should be periodically reconciled and corrections made to true up system records.

Management Action Plan (MAP) 5.1 E3	
SCDOT is working with Mansfield to develop an interface between the effected SCDOT systems and the vendor's system to ensure accurate and timely information is reported.	
MAP Owner:	David Cook
Division:	Maintenance
Scheduled Date:	6/30/18

6 PERFORMANCE MANAGEMENT OPPORTUNITIES

While our engagement was primarily focused on risk management, we have identified the following as an opportunity for strengthening the control environment of the Fuel Card activity.

Opportunity 6.1 P1   Policies and Procedures

Existing documented policies and procedures on the fuel card activity are not up-to-date, sufficient for succession planning, nor provide detailed steps necessary to perform a specific job function. The policies and procedures were last updated in 2008 prior to changes that occurred with the new fuel card vendor. Step-by-step, written procedures, including screen shots, should be developed for key functions (new card issuance, replacement cards, handling of cards for equipment that is turned in, expired cards, exception report analysis and follow-up, etc.)

Management Action Plan (MAP) 6.1 P1	
Revise existing policies and procedures to conform to current practices and to provide detailed steps and instructions for performing the various fuel card processes.	
MAP Owner:	David Cook
Division	Maintenance
Scheduled Date:	12/31/17

APPENDIX A

RISK SCORING MATRIX

Risk significance is rated on a scale of 1 (low) to high (25) and is the product of the risk consequence score (1 to 5) multiplied by the risk likelihood score (1 to 5). Risks scoring 4 and below are within Management's risk appetite and require no further risk reduction. The following matrix provides a color scale corresponding to risk significance scores.

Likelihood		Consequence				
		Incidental	Minor	Moderate	Major	Extreme
Frequent or Almost Certain		5 Low	10 Medium	15 Medium High	20 High	25 High
Likely		4 Acceptable	8 Medium Low	12 Medium	16 Medium High	20 High
Possible		3 Acceptable	6 Low	9 Medium Low	12 Medium	15 Medium High
Unlikely		2 Acceptable	4 Acceptable	6 Low	8 Medium Low	10 Medium
Rare		1 Acceptable	2 Acceptable	3 Acceptable	4 Acceptable	5 Low