



COUNTY AUDIT DEPARTMENT

REPORT # 422

JANUARY 30, 2024

An Audit of:

**FLEET MANAGEMENT FUEL TAX &
REGULATORY REPORTING**



Cindy Stuart

CLERK OF COURT & COMPTROLLER
HILLSBOROUGH COUNTY

The Honorable Ken Hagan, Chair
The Honorable Donna Cameron Cepeda
The Honorable Harry Cohen
The Honorable Pat Kemp
The Honorable Gwen Myers
The Honorable Michael Owen
The Honorable Joshua Wostal

January 30, 2024

Dear Commissioners:

The Audit Team performed an audit of the Fleet Management Fuel Tax & Regulatory Reporting processes (Audit Report #422, dated January 30, 2024). Responses to the Audit Team's recommendations were received from the Director of Fleet Management and have been included in the Report after each audit comment and recommendation.

The purpose of this Report is to furnish management with an independent, objective analysis, and information concerning the activities reviewed. It is not an appraisal or rating of management.

Although the Audit Team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

I appreciate this opportunity to be of service to the Board of County Commissioners. I am happy to address any questions that you may have or furnish additional information if desired.

Sincerely,

Heidi Pinner

Heidi Pinner, CIA CISA CFE CRMA
Chief Audit Executive, Clerk of Court & Comptroller

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EXECUTIVE SUMMARY

BACKGROUND INFORMATION

Hillsborough County's Fleet Management Department provides Asset Management, Fuel Management, and Policy Oversight for a fleet of 3,570 assets valued at \$216M, supporting 30 Board of County Commissioners (BOCC) departments and other miscellaneous agencies. Fleet Management is responsible for ordering and delivering fuel for departments and agencies supported under the County Administrator. They provide approximately 2.4M total combined gallons of unleaded and diesel fuel via fully automated facilities, bulk fuel delivery to over 60 non-automated fuel sites, and over 120 emergency generator sites. Fleet Management is a part of a cooperative interlocal agreement for bulk fuel purchases and delivery with: the Hillsborough Area Regional Transit (HART), the Polk County Board of County Commissioners, the City of St. Petersburg, Lakeland Area Mass Transit District, Pinellas Suncoast Transit Authority, and Tampa International Airport. The agreement utilizes four (4) contracted vendors who fulfill and deliver orders for fuel and then bill the agencies via invoices.

The State of Florida charges taxes on fuel which may be added up-front to the price per gallon charged by fuel vendors during the sale of bulk fuel. If a fuel vendor does not charge these taxes, then the buyer is responsible for paying the taxes to the State. Certain agencies such as local municipal governments are exempt from most fuel taxes and may receive a refund or rebate of taxes paid up-front. State law requires local governments to complete a Fuel Tax Return every month. The tax return is used to report fuel purchased and used, and to calculate tax due or the tax refund for the use of diesel and regular gasoline. The four (4) vendors in the interlocal agreement charge the State taxes up-front on their invoices to the County. Fuel Tax Returns are required to be submitted even if no refund or tax payment is due to the State. Any refunds received by the County should be used for local road improvements and repairs. The County Finance Department under the Clerk of Court & Comptroller's Office submits a combined Fuel Tax Return to the State on behalf of Fleet Management and the Hillsborough County Sheriff's Office (HCSO). The State imposes a filing deadline of the 20th of the month following the month being reported. For example, a Fuel Tax Return for the month of January must be filed by February 20th.

OBJECTIVE

The primary objective of the audit is to review and evaluate the effectiveness of Fleet Management's controls and processes to ensure that fuel procurement and fuel usage is accurately tracked and reported in compliance with Florida Statutes Chapter 206.

SCOPE

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that County Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit

comments and conclusions based on the audit objectives. County Audit believes that the evidence obtained provides this reasonable basis.

The Audit Team conducted numerous interviews with Fleet Management and County Finance. The audit team also reviewed samples of Fleet Management’s fuel inventory and usage reports, County Finance’s internal Excel worksheet, and previous Fuel Tax Returns. HCSO was not included in the scope of the audit as they are outside the Audit Team’s auditable area.

OVERALL EVALUATION

PROCESS STRENGTHS AND SUCCESSES

- Fleet Management utilizes technology to monitor fuel inventory and usage.
- Multiple internal control processes are in place to reduce the risk of fuel theft.
- Multiple reviews and approvals are performed before the Fuel Tax Return is submitted to the State.

CONTROL IMPROVEMENT OPPORTUNITIES/RISKS

- Opportunities exist to improve fuel inventory and usage reports.
- Timeliness of the Fuel Tax Return submitted to the State could be improved.
- Several discrepancies were found between fuel reports and reported figures.

Full testing results are included on page 6 of this Report.

OPINION



The overall control environment relative to the fuel tax and regulatory reporting process is at a formal maturity level. Fleet Management has well-established policies and procedures in place along with hardware and technology controls to ensure the necessary fuel data is recorded and provided to County Finance each month. The Audit Team did find several discrepancies indicating that there are opportunities to improve upon current controls over the accuracy and timeliness of fuel tax returns.

The exit conference was held with the Fleet Management Department, County Finance, and County leadership on January 8, 2024.

Other minor concerns not included in this Report were communicated to management and/or corrected during fieldwork.

AUDITED BY

Heidi Pinner, CIA, CISA, CFE, CRMA, Chief Audit Executive

Ben Everett, CPA, CIA, CFE, CISA, Audit Manager

Mary Bennett, CFE, Internal Auditor

AUDIT COMMENT 1: FUEL TAX RETURN ACCURACY

TIMELINESS

**50%
OF THE TAX
RETURNS REVIEWED
WERE SUBMITTED
TO THE STATE PAST
THE DUE DATE.**

**FUEL INVENTORY
AND USAGE
REPORTS COULD BE
IMPROVED**

Opportunities exist to improve fuel inventory and usage reports and the timeliness and accuracy of fuel tax returns submitted to the State.

The objective was to review fuel tax returns and supporting documentation for accuracy and to ensure the fuel tax returns were submitted by the deadline of the 20th of the following month.

Background

Every month, County Finance receives multiple reports from Fleet Management listing the numbers of gallons of fuel, including fuel purchase reports, fuel usage reports, and fuel ending inventory. Fleet Management obtains fuel data primarily from automated fuel pump and fuel tank systems that record the numbers of gallons used during each month and the quantities physically on-hand as-of the end of each month. However, some County departments have fuel tanks that lack automated technology and must manually measure the ending inventory by dipping a measuring stick into the tank.

The amounts of fuel received are determined based on fuel delivery tickets and invoices received from the fuel vendors. County Finance compiles the Fleet Management reports into their own internal Excel worksheet that simulates the State’s fuel tax return format. The total numbers of gallons of diesel and gasoline from the Excel worksheet are then used by County Finance to enter the required fields on the State’s tax return form which is filed electronically on the Florida Department of Revenue website.

The basic fuel formula calculation utilizing the number of gallons of fuel used each month is:

	Beginning Fuel Inventory
+	Purchases of Fuel
-	Fuel Used
=	Ending Inventory

This ending inventory amount is what the ending inventory should be based strictly on the calculation. However, the actual number of gallons physically on-hand is often slightly different. This difference may be caused by temperature changes that cause fuel volumes to expand or contract, small rounding errors, or inaccurate fuel measurements. The difference between the expected calculated ending inventory amount and the actual physical ending quantities on-hand as taken from fuel tank readings is known as a variance and is typically a relatively small amount. The actual ending physical inventory for a given month becomes the beginning inventory in the following month for the purpose of preparing the Fuel Tax Returns. Both amounts should match.

During County Finance’s review process, if large variances or other discrepancies are found, County Finance inquires with Fleet Management to obtain additional information.



Test Procedure

The Audit Team selected six (6) of the most recently filed tax returns with supporting documentation to review for accuracy and timeliness of submittal. The Audit Team obtained copies of Fleet Management fuel reports, fuel vendor invoices, County Finance internal Excel worksheets, and the final tax returns. Figures from the reports were re-calculated for accuracy and compared to the final figures reported on the tax return. Vendor invoices were reviewed to ensure the total gallons purchased matched what was reported by Fleet Management. The submitted dates indicated on the final tax returns were reviewed to ensure the tax return was submitted by the deadline of the 20th of the following month.

During the audit, the Audit Team became aware that some months had significantly higher-than-normal variances. Therefore as an additional test, a list of variances from each month’s fuel tax return for the two-year period from July 2021 to July 2023 was prepared. The ending inventories

from each month were compared to the beginning inventories of the following month for the entire two-year period to ensure they matched. An additional sample of six (6) months with high variances was selected for further review to determine the cause of the variances. Fleet Management fuel reports and the County Finance internal worksheets were re-calculated for accuracy and compared to the final figures reported on the fuel tax returns for the six months selected.

TESTING RESULTS

Of the six most recently filed returns, all six had accurate figures with supporting documentation that matched the County Finance Excel worksheet and the tax returns submitted to the State. All six had acceptably low variance amounts in the numbers of gallons of fuel reported. Three (3) had fuel tax return submission dates that were slightly past the due date (1 - 3 days after the 20th of the following month). Based on interviews performed with County Finance and Fleet management, there could be a delay in filing fuel tax returns as a result of:

- Delays from vendors providing Fleet Management with any remaining outstanding invoices toward the end of the month or in the compilation of the fuel reports and vendor invoices.
- Delays during County Finance's review of the documents or time needed to research any discrepancies or large variances and make corrections.
- Weekends and holidays.
- Discrepancies with HCSO's fuel reports when combining their data with Fleet management's data into the tax return.

For the six (6) high variance months selected for review, the following discrepancies were found:

- September 2021 - The gasoline variance on County Finance's internal worksheet did not match the variance on the reported tax return.
- November 2021 - Diesel fuel usage had a miscalculation on County Finances' internal worksheet and was reported incorrectly on the tax return.
- September 2022 - The ending physical inventories reported on the tax return were incorrect due to a report that was run for September 2021 instead of September 2022. This in turn resulted in an incorrect beginning physical inventory on the following month's tax return for October 2022.
- October 2022 - One of the reports from Fleet Management had 2 different versions. The second one was meant to be a correction to the first one regarding the number of gallons of fuel purchased during the month. However the first version was used to prepare the tax return. The County Finance internal worksheet had several figures that did not match what was filed on the tax return including gasoline & diesel gallons purchased and the gasoline & diesel variance amounts. The ending physical inventory for October 2022 did not match the beginning physical inventory for the following month in November 2022.

The Audit Team observed that the variance amounts became significantly smaller for the months following November 2022. Fleet management advised this is most likely because they are now running ending physical inventory reports late at the end of the last day of the month, rather than sometimes on the first day of the following month, which may result in large variances if any significant fuel deliveries or usages occurred during the first day of the month.

The Audit Team also worked with Fleet Management, County Finance, and the Information & Innovation Office (IIO) to improve and clarify the Fleet Management fuel usage report to provide data that better aligns with what is needed on the tax returns.

- The original report had merged cells and sub-total rows mixed in, making the data harder to sort, filter, and analyze.
- The original report showed only the total number of gallons of fuel used for off-road purposes such as generators and landscaping equipment. However, the tax return requires that both off-road and on-road usages be reported.
- County Finance previously had to manually deduce and calculate the on-road gallons used by subtracting the off-road gallons from the total gallons shown in the report.
- The newly revised report now shows both on-road and off-road gallons which add up to the total gallons used. The rows of raw supporting data also no longer have merged cells or other inconsistencies, thus making it easier to analyze and reconcile to the totals reported on the tax returns.

OTHER OBSERVATIONS

Fuel volume expands or contracts with changes in temperature, which can affect the number of gallons of fuel that are said to exist in a tank or a delivery truck. As the temperature increases, fuel expands and takes up slightly more space or volume. And likewise, as the temperature falls, fuel contracts and takes up slightly less space or volume. These changes in volume tend to be relatively minor and may result in small variances. This however, depends on how big of a temperature change there may be.

In order to standardize the measurement of gallons for billing purposes, the fuel industry has established the exact temperature of 60° Fahrenheit as the accepted reference point. The volume of fuel at different temperatures is known as gross gallons. When a fuel tanker arrives and delivers fuel, the truck measures how many gross gallons of fuel are physically pumped regardless of what the current temperature is. A mathematical formula can then be used to adjust and re-calculate what the number of gallons would have been if the temperature had been exactly 60° F, which is referred to as net gallons.

U. S. fuel suppliers who sell bulk fuel typically bill their customers in terms of net gallons in the hotter, southern states. This generally results in a lower number of gallons charged to the customer on their invoices. Conversely, colder northern states are typically billed in gross gallons

which also results in a lower number of gallons charged on the invoice. Either way, the customer (buyer) generally gets billed for the lesser number of gallons, gross or net.

The County's cooperative interlocal agreement for bulk fuel requires that fuel vendors should be billing the agencies (buyers) on the agreement for net gallons. However, the Audit Team identified that one of the fuel suppliers on the agreement was billing Fleet Management for gross gallons instead, which may result in a slightly higher number of gallons being billed than what should have been. The Audit Team did not attempt to quantify the exact difference this may have made over time but noted that based on the small differences between gross and net gallons shown on other vendors' invoices, it would appear to make a relatively immaterial difference in the total numbers of gallons billed. The Audit Team shared this observation with Fleet Management for their future consideration.

RECOMMENDATION

Fleet Management and County Finance should work collaboratively to address the following:

1. Researching whether or not the discrepancies found warrant filing amended/corrected fuel tax returns with the State.
2. Developing an overall methodology to ensure accurate figures are submitted on the fuel tax returns going forward.
3. Developing an overall workflow process to ensure fuel tax returns are submitted by the required deadline.
4. Consider whether a change to the agreement or a change to the vendor invoicing practices is needed to make the reporting of gross vs. net gallons consistent.
5. Consider working with the County's Government Relations & Strategic Services Department to explore the possibility of extending the filing deadline in the state statute through legislative means.

CLIENT RESPONSE:

RECOMMENDATION 1: Researching whether or not the discrepancies found warrant filing amended/corrected fuel tax returns with the State.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

County Finance will coordinate corrections with Fleet Management and submit amended returns with the State. Additional corrective measures have been taken by Fleet Management to minimize and eliminate future discrepancies to include: a) the alignment of beginning and ending inventories, b) follow-up meetings with County Finance on monthly filings, c) inventory automation at several fuel site locations, and d) a reduction in Fire Rescue fuel reporting sites

from 30 stations to 14 stations. Fleet and County Finance will continue to meet periodically to improve these processes as well as data reported.

TARGET COMPLETION DATE:

June 2024

RECOMMENDATION 2: Developing an overall methodology to ensure accurate figures are submitted on the fuel tax returns going forward.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

Fleet Management (FM) expanded their Standard Operating Procedure (SOP) "Fleet Fuels Management Processes, SOP FM#19" dated January 16, 2024 to incorporate improvements made to monthly tax report coordination, processing, and review. These procedures will aid County Finance's ability to develop and submit County Fuel Tax Reports to the State.

TARGET COMPLETION DATE:

Completed

RECOMMENDATION 3: Developing an overall workflow process to ensure fuel tax returns are submitted by the required deadline.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

Improvements were previously made to the monthly processing of Fleet Managements portion of the Tax Report by submitting the required data to County Finance by the 15th of the month, or sooner when the 15th falls on a weekend or a holiday. This timeline is also captured in Fleet Management "Fleet Fuels Management Processes, SOP FM#19" dated January 16, 2024. Additionally, the Hillsborough Area Regional Transit Authority (HART) cooperative contract manager has reenforced the importance of invoicing in a timely manner with contracted fuel vendors to meet State filing requirements.

TARGET COMPLETION DATE:

Completed

RECOMMENDATION 4: Consider whether a change to the agreement or a change to the vendor invoicing practices is needed to make the reporting of gross vs. net gallons consistent.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

The vendors on the existing Hillsborough Area Regional Transit Authorities (HART) fuel cooperative contract have justified their current invoicing approach to the County auditors, the HART contract manager, and contract users. The current approach will be utilized until the contract termination date of September 30, 2024. Future contracts will contain wording which clarifies gross versus net requirements on invoices and/bill of ladings for consistency amongst the different types of vendors and delivery methods utilized.

TARGET COMPLETION DATE:

October 15, 2024

RECOMMENDATION 5: Consider working with the County's Government Relations & Strategic Services Department to explore the possibility of extending the filing deadline in the state statute through legislative means.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

Fleet will coordinate with the County's Chief Government Relations and Strategic Services Administrator to pursue extending the filing deadline with the State.

TARGET COMPLETION DATE:

October 15, 2024