**STAFF REPORT
ACTION REQUIRED**

Auditor General's Report - Review of Toronto Transit Commission, Non-Revenue Vehicle Fuel Card Controls Need Immediate Improvement

Date:	February 19, 2015
To:	TTC Audit Committee
From:	Joseph L. Kennelly

Summary

Attached is the Auditor General's Report, Review of Toronto Transit Commission, Non-Revenue Vehicle Fuel Card Controls Need Immediate Improvement dated December 24, 2014.

The report is being forwarded to the TTC Audit Committee for their review and consideration and will be forwarded to the next TTC Board meeting with a recommendation that the Board forward this report to the Audit Committee of the City of Toronto.

Recommendation

It is recommended that the TTC Audit Committee:

(1) Forward the Auditor General's Report to the next TTC Board meeting.

Contact

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Attachment

Auditor General's Report

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Review of Toronto Transit Commission, Non-Revenue Vehicle Fuel Card Controls Need Immediate Improvement

Date:	February 6, 2015
To:	TTC Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

The Auditor General's 2013 Audit Work Plan included an audit of the Toronto Transit Commission (TTC) Bus Maintenance and Shops Department. Due to the Department's extensive operations, the audit was divided into two separate phases. Phase One, which focused on conventional buses, was completed in December 2013, and the audit report was submitted to the TTC Audit Committee and the TTC Board in February 2014.

Phase Two focused on TTC's non-revenue fleet. Since fuel management is a key fleet management function, Phase Two included an audit of fuel card management for non-revenue vehicles (NRVs). Phase Two resulted in two separate audit reports. Audit findings and recommendations pertaining to NRV fleet management and maintenance are presented in an audit report entitled "Phase Two: Non-Revenue Fleet and Equipment Management and Maintenance". This report contains the audit findings and recommendations pertaining to non-revenue fleet fuel card management.

The objective of the fuel card audit was to assess the adequacy of internal controls in fuel card administration. The audit report contains four recommendations that will improve existing controls and foster collaborate opportunities with the City's Fleet Services Division.

The audit results and recommendations are contained in the attached report entitled "Review of Toronto Transit Commission, Non-Revenue Vehicle Fuel Card Controls Need Immediate Improvement." Management responses to the audit recommendations are also attached.

RECOMMENDATIONS

The Auditor General recommends that:

1. The Board request the Chief Executive Officer to review and revise the current fuel card policy and procedures such that adequate controls are developed and implemented to facilitate effective monitoring of fuel card transactions and detection of questionable transactions.

2. The Board request the Chief Executive Officer to take the necessary steps to improve compliance with fuel card policy and procedural requirements, including but not be limited to:

   a. Developing additional procedural requirements to hold user group management staff accountable for non-compliance with fuel card policies;

   b. Undertaking an immediate review of active Personal Identification Numbers (PINs) to identify and cancel PINs previously assigned to employees who have since terminated their employment; and

   c. Developing procedures to facilitate timely notification and cancellation of PINs upon employment termination.

3. The Board request the Chief Executive Officer to strengthen existing fuel card administration and monitoring processes by the Systems Contract and Administration Unit. Steps to be taken should include but not be limited to:

   a. Ensuring the issuance of fuel cards and personal identification numbers are in accordance with the policy and procedural requirements;

   b. Improving the effectiveness of transaction sample reviews by the Systems Contract and Administration Unit; and

   c. Defining exception reporting requirements and providing regular exception reports to aid management review of fuel card transactions and monitoring.

4. The Board request the Chief Executive Officer to, prior to issuing TTC's next fuel card contract in 2016, work with the Director of the City of Toronto Fleet Services Division to determine the feasibility and merits of utilizing the City's fuel supply system including the City operated fuel stations, the City fuel card, and the radio-frequency identification technology.

5. This report be forwarded to the City's Audit Committee for information.

Financial Impact

The implementation of recommendations in this report will likely result in cost savings. The extent of any resources required or potential cost savings resulting from implementing the recommendations in this report is not determinable at this time.

COMMENTS

TTC's NRVs and equipment are used by all five revenue fleets (bus, subway, streetcar, Wheel-Trans, and Scarborough Rapid Transit) and other TTC departments to support ongoing transit operations and capital projects. As of June 2014, TTC's non-revenue fleet consisted of 455 vehicles and 363 units of equipment including forklifts, sweepers and tractors.

In 2013, TTC entered into a contract with Petro Canada for the provision and supply of fuel, related products and fuel credit card services for the period December 1, 2013 to November 30, 2016. As of May 31, 2014, there were 441 Petro Canada fuel cards and 2,261 personal identification numbers (PINs) issued to TTC employees to use the TTC fuel cards.

The costs of fuelling NRVs and equipment were approximately $2 million in 2013. While the NRV fuel costs are part of TTC Bus Maintenance and Shops Department's operating budget, the Materials and Procurement Department is responsible for the day-to-day administration and oversight of fuel card usage.

Prior to the current contract with Petro Canada, TTC's fuel cards were provided by Esso Canada. In its 2004 internal audit report entitled "Special Assignment – Review of TTC Fuel Management", the TTC Audit Department identified "*a number of 'red flags' that could be indicative of improper use of the Esso fuel cards"* and found controls over fuel card purchases "*deficient*".

Our 2014 audit confirmed that weak management controls over fuel card usage continued to exist. In addition, we noted a number of significant issues in the current fuel card policy and monitoring process. Under the current fuel card management system, any misuse of TTC's fuel cards is unlikely to be detected by management through routine monitoring. Fuel card control issues should be rectified immediately.

The audit report entitled "Review of Toronto Transit Commission, Non-Revenue Vehicle Fuel Card Controls Need Immediate Improvement" is attached as Appendix 1. Management's response to each of the recommendations contained in the report is attached as Appendix 2.

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SIGNATURE

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Beverly Romeo-Beehler, Auditor General

14-TTC-01

ATTACHMENTS

Appendix 1:   Auditor General's Report, Review of Toronto Transit Commission, Non-Revenue Vehicle Fuel Card Controls Need Immediate Improvement

Appendix 2:   Management's Response to the Auditor General's Review of Toronto Transit Commission, Non-Revenue Vehicle Fuel Card Controls Need Immediate Improvement

AUDITOR GENERAL'S REPORT

Review of Toronto Transit Commission

Non-Revenue Vehicle Fuel Card Controls Need Immediate Improvement

December 24, 2014

Beverly Romeo-Beehler, CPA, CMA, B.B.A., JD
Auditor General

TORONTO

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EXECUTIVE SUMMARY

Phase One focused on conventional buses

The Auditor General's 2013 Audit Work Plan included an audit of the Toronto Transit Commission (TTC) Bus Maintenance and Shops Department. Due to the Department's extensive operations, the audit was divided into two separate phases. Phase One, which focused on conventional buses, was completed in December 2013, and the audit report was submitted to the TTC Audit Committee and the TTC Board in February 2014.

Phase Two focused on non-revenue fleet and resulted in two separate audit reports

Phase Two focused on TTC's non-revenue fleet. Since fuel management is a key fleet management function, Phase Two included an audit of fuel card management for non-revenue vehicles (NRVs). Phase Two resulted in two separate audit reports. Audit findings and recommendations pertaining to NRV fleet management and maintenance are presented in an audit report entitled "Phase Two: Non-Revenue Fleet and Equipment Management and Maintenance". This report contains the audit findings and recommendations pertaining to non-revenue fleet fuel card management.

455 NRVs and 363 units of equipment

TTC's NRVs and equipment are used by all five revenue fleets (bus, subway, streetcar, Wheel-Trans, and Scarborough Rapid Transit) and other TTC departments to support ongoing transit operations and capital projects. As of June 2014, TTC's NRV fleet consisted of 455 vehicles and 363 units of equipment including forklifts, sweepers and tractors.

Fuel cards are used to fuel NRVs and equipment

In 2013 TTC entered into a contract with Petro Canada for the provision and supply of fuel, related products and fuel credit card services for the period December 1, 2013 to November 30, 2016. As of May 31, 2014, there were 441 Petro Canada fuel cards and 2,261 personal identification numbers (PINs) issued to TTC employees to use the TTC fuel cards.

Approximately $2 million in fuel costs for NRVs and equipment in 2013

The cost of fuelling NRVs and equipment was approximately $2 million in 2013. While the NRV fuel costs are part of TTC Bus Maintenance and Shops Department's operating budget, the Materials and Procurement Department is responsible for the day-to-day administration and oversight of fuel card usage.

A 2004 TTC internal audit report noted issues in fuel card system

Prior to the current contract with Petro Canada, TTC's fuel cards were provided by Esso Canada. In its 2004 internal audit report entitled "Special Assignment – Review of TTC Fuel Management", the TTC Audit Department identified "*a number of 'red flags' that could be indicative of improper use of the Esso fuel cards*" and found controls over fuel card purchases "*deficient*".

Our 2014 audit confirms that weak management controls over fuel card usage continue to exist. In addition, we noted a number of significant issues in the current fuel card policy and monitoring process. Under the current fuel card management system, any misuse of TTC's fuel cards is unlikely to be detected by management through routine monitoring.

Summary of key audit findings

Staff are allowed to use a fuel card to fuel any vehicle within a user group

Although each fuel card is linked to an assigned vehicle during card issuance, TTC's current fuel card policy and procedures allow employees to share fuel cards among different vehicles. Based on our site visits and discussions with staff, in practice employees are allowed to use a fuel card to fuel any vehicle within their user group. The number of vehicles within a user group varies from 10 to 15.

Required fuelling details on receipts were frequently missing

Current fuel card policy also allows multiple vehicle fuelling on the same transaction and jerry can fill ups as long as staff provide the transaction details on fuel receipts. Our review of a sample of receipts found approximately half of the receipts missing the key details.

Important system controls are compromised by existing policy and staff practice

The practice of allowing employees to use a fuel card to fuel any vehicle, in our view, compromises important system controls. While each monthly usage report lists the fuelling details (e.g. employee name, fuel card number, transaction date and time, and litres of fuel), a critical piece of information *"which vehicle was fuelled?"* cannot be answered from reviewing the report. Consequently it is impossible for management staff to detect questionable transactions in reviewing usage reports.

TTC should review and revise the current fuel card policy and procedures such that adequate controls are in place to facilitate monitoring and detection of questionable fuel card transactions.

Our review also noted a number of other issues including:

*High user non-
compliance and
weak management
controls*

- High user non-compliance with fuel card procedure requirements including drivers entering incorrect odometer readings at the pump, and not completing key information on fuel receipts. These issues were also identified in the TTC's 2004 internal audit report on fuel management.

- User group management staff requested fuel cards for vehicles that had been decommissioned;

- User group management staff not requesting that employee PINs be cancelled when employees were no longer with the TTC;

- PINs being issued to employees without obtaining signed user agreements;

- Ineffective monthly transaction review procedures by fuel card administrative staff; and

- Lack of exception reports to facilitate management review to identify questionable transactions and usage patterns.

*Opportunities to
use the City
Fleet's fuel supply
system*

Fuel card control issues should be rectified immediately. In addition, TTC should assess the feasibility and merits of using the City operated fuel stations, the City fuel card program, and the new radio-frequency identification technology to automate fuel usage analysis and monitoring. Adopting the City Fleet's fuel supply system may help improve monitoring, controls and reporting of fuel usage, as well as the potential for cost savings in the long term.

Conclusion

*Four audit
recommendations
to help enhance
fuel card controls*

This report presents the results of our audit of controls over fuel card usage for TTC's NRVs and equipment. Our audit provides four recommendations that will improve existing controls and foster collaborative opportunities with the City's Fleet Services Division.

BACKGROUND

TTC provides an integrated network of transit systems

The Toronto Transit Commission (TTC) is the third largest public transit system in North America serving over 4.5 million people in the Greater Toronto Area through an integrated transit network consisting of buses, streetcars and subways.

455 non-revenue vehicles and 363 units of equipment

TTC's non-revenue vehicles (NRVs) and equipment are used by all five revenue fleets (bus, subway, streetcar, Wheel-Trans, and Scarborough Rapid Transit) and other TTC departments to support ongoing transit operations and capital projects. As of June 2014, TTC's non-revenue and equipment fleet consisted of 455 vehicles and 363 units of equipment including forklifts, sweepers and snow blowers.

TTC uses Petro Canada fuel cards to fuel its NRVs and equipment

In 2013 TTC entered into a contract with Petro Canada for the provision and supply of fuel, related products and fuel card services for its NRVs and equipment for the period December 1, 2013 to November 30, 2016. As of May 31, 2014, there were 441 Petro Canada fuel cards and 2,261 personal identification numbers (PINs) issued to TTC employees.

NRV and equipment fuel costs are borne by the Bus Maintenance and Shops Department

The costs of fueling NRVs and equipment, approximately $2 million in 2013, are part of the Bus Maintenance and Shops Department's annual operating budget. The fuel costs are not allocated to user departments utilizing the vehicles. In our audit report on NRV fleet management and maintenance, we recommend that the TTC identify ways to allocate certain NRV fleet costs (including fuel costs) to user departments to enhance accountability.

TTC's Materials and Procurement Department is responsible for fuel card administration

While the fuel costs are part of the Bus Maintenance and Shops Department's annual operating budget, the Department's NRV fleet management staff do not have any role in fuel card administration or monitoring. The day-to-day administration and oversight of fuel card usage are the responsibilities of the Systems Contract and Administration (SCA) Unit within the TTC Materials and Procurement Department.

The policy and procedural requirements pertaining to the issuance and appropriate use of fuel cards are detailed in a document entitled "System Contract Procedures, Supply of Fuel Services". Exhibit 1 illustrates the fuel card issuance and transaction approval process and the respective roles of fuel card user groups, the SCA Unit, and Petro Canada.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

The Auditor General's 2013 Audit Work Plan included an audit of TTC's Bus Maintenance and Shops Department. A key responsibility of the Department is ongoing maintenance of conventional buses, Wheel-Trans accessible buses, NRVs, and fleet equipment.

Phase 1 audit was completed in December 2013

Phase One of the audit focused on conventional buses and was completed in December 2013. The Phase One audit report entitled "*Review of Toronto Transit Commission Bus Maintenance and Shops Department, Phase One: Bus Maintenance and Warranty Administration*" was presented to the TTC Audit Committee and the TTC Board in February 2014.

Phase Two focused on the NRV fleet and resulted in two audit reports

Phase Two of the audit focused on TTC's non-revenue fleet. Phase Two resulted in two separate audit reports. Audit findings and recommendations pertaining to NRV fleet management and maintenance are presented in an audit report entitled "Phase Two: Non-Revenue Fleet and Equipment Management and Maintenance". This report contains the audit findings and recommendations pertaining to non-revenue fleet fuel card management.

Objective of the fuel card review was to assess adequacy of internal controls

As part of the Phase Two audit, we conducted a review of fuel card management for TTC's non-revenue fleet. The objective of the fuel card review was to assess the adequacy of internal controls in fuel card administration. The review covered the period from January to June 2014.

Our audit work included the following:

Audit work included reviews and analyses of fuel card transactions and supporting documents

- Reviews of fuel card policy and procedure requirements

- Interviews with staff of TTC's Materials and Procurement Department, fuel card holders, and management and administrative staff in other TTC departments

- Reviews and analyses of monthly fuelling transactions and supporting documents

- Consultations with the Director of the City of Toronto Fleet Services Division

Compliance with generally accepted government auditing standards

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 findings and conclusions based on our audit objectives.

AUDIT RESULTS

A. Revising Policies and Procedures to Establish Adequate Controls

A major control gap in current fuel card policy

As part of our audit work, we reviewed Petro Canada's monthly usage reports and relevant vehicle information to determine whether there were questionable transactions. While we have identified instances of questionable transactions such as fuelling over tank capacity and frequent fuelling of the same vehicle, we were not able to conclude whether the transactions were legitimate because of major weaknesses in the current fuel card policy and control framework.

TTC's internal audit identified similar 'red flags' in 2004

In 2004, TTC's Audit Department issued an audit report identifying 'red flags' in relation to fuel card usage and controls. Several of these concerns persist today and are consistent with our observations below.

Each fuel card is linked to an assigned TTC vehicle	Embedded in Petro Canada's fuel card system are fundamental controls such as assigning a fuel card to a specific vehicle when a fuel card is issued. The assigned vehicle number is then printed on the fuel card. In addition, each employee authorized to fuel is assigned a unique PIN.
Linkage between a fuel card and an assigned vehicle is a key system control	The linkage between a fuel card and a specific vehicle is a key system control for reconciling fuel usage with vehicles being examined. This would enable management and audit staff to detect questionable fuelling transactions when reviewing monthly usage reports. Examples of questionable transactions would be fuelling that exceeds the tank capacity of the assigned vehicle, and frequent fuelling transactions for the same vehicle.
Staff are allowed to use a fuel card to fuel any vehicle within a user group	Although each fuel card is linked to an assigned vehicle during card issuance, TTC's current fuel card policy and procedures allow employees to share fuel cards among different vehicles. Our site visits and discussions with staff noted that, in practice, employees were allowed to use a fuel card to fuel any vehicle within their user group. The number of vehicles within a user group varies from 10 to 15. The policy also allows multiple vehicle fuelling on the same transaction and jerry can fill ups as long as staff provide the transaction and vehicle details on fuel receipts.
Important system controls are compromised by existing policy and staff practice	The practice of allowing employees to use a fuel card to fuel any vehicle, in our view, compromises the important system controls that are necessary to reconcile vehicle and fuel usage. While each monthly usage report lists the fuelling details (e.g. employee name, fuel card number, transaction date and time, and litres of fuel), a critical piece of information "*which vehicle was fuelled?*" cannot be answered from reviewing the report. Consequently, it is impossible for management staff to detect questionable transactions in reviewing usage reports.
Required fuelling details on receipts were frequently missing	The control issues are further compounded by employees not recording the required details on receipts. The policy requires employees to obtain a purchase receipt and indicate on the receipt information such as the vehicle number, driver's name, and whether more than one TTC vehicle or fleet equipment has been fuelled. Our review of a sample of receipts from various user groups found approximately half of the receipts missing the required details.

Requiring employees to provide fuelling details on receipts is not a practical compensating control	In practice, even if the transaction details are recorded on each receipt as required by the policy, it would take a considerable amount of staff resources to manually input written records on each receipt into a spreadsheet to allow for any meaningful analysis of transaction records by vehicle. The manner in which the receipts are currently stored and organized by user groups would further render this task impractical.
According to management staff, the policy of fueling multiple vehicles is needed for operational needs	According to management staff, the practice of allowing fueling of any vehicle with a fuel card is necessary in case a vehicle's assigned fuel card cannot be found or a staff member who has not been issued a PIN needs to use a vehicle. We do not find these to be valid reasons. Practical solutions have been adopted in City divisions facing similar situations. In these cases, the city division adopted a simple measure of attaching the designated fuel card to the vehicle key. In certain City offices, they also set aside a small number of spare fuel cards for unplanned usage, and the spare card usage details are recorded and monitored by supervisory staff.

Recommendation:

1. **The Board request the Chief Executive Officer to review and revise the current fuel card policy and procedures such that adequate controls are developed and implemented to facilitate effective monitoring of fuel card transactions and detection of questionable transactions.**

B.   Improving Compliance With Policy and Procedural Requirements

Audit staff reviewed a sample of transactions and receipts	The fuel card policy and procedures specify the respective roles and responsibilities of cardholders, user group management staff, and staff of the SCA Unit. To determine compliance level with the policy and procedural requirements, we reviewed a sample of transaction records and supporting receipts, and interviewed the SCA and user group staff. Table1 provides a brief description of the policy requirements, audit findings, and the contributing factors for non-compliance.

Table 1: **Compliance with policy and procedural requirements and contributing factors**

Procedural Requirement	Audit Findings	Contributing Factors
Cardholders		
Odometer readings are accurately entered at the pump	Odometer readings are frequently incorrectly entered or not entered at all by drivers	Insufficient supervisory review of transaction records and fuel receipts
Drivers indicate on the fuel receipts vehicle number, driver's name and signature, license plate and whether equipment or jerry cans have been fuelled	Fuel receipts are frequently incomplete or contain no detail	Insufficient supervisory review of transaction records and fuel receipts
Multiple vehicle fill ups are fully documented on receipts	Multi vehicle fill ups are not always detailed on fuel receipts	Insufficient supervisory review of transaction records and fuel receipts
Employees do not earn bonus miles or air miles	Did not note any bonus mile claim in audit sample	N/A
User Group Management Staff		
Reconcile fuel receipts to monthly usage reports received from the SCA. The monthly reconciliation ensures that all transactions have a matching fuel receipt with required information. Missing fuel receipts are obtained or a missing fuel receipt form is completed and submitted to the SCA. User group submits reconciled usage reports (known as invoice summaries) to the SCA.	Based on a random sample of 5 user groups for the period January to April 2014, 5 monthly reconciliations (known as invoice summaries) had not been submitted by user groups to the SCA as of June 2014. One monthly reconciliation was outstanding for 6 months since January 2014.	Policy does not hold user group managers accountable for late reconciliation submissions
User groups request fuel cards for active vehicles	At the commencement of the current contract with Petro Canada, 4 user groups requested 9 fuel cards from the SCA in November 2013 for vehicles that had been decommissioned prior to 2012 (two were decommissioned in 1999). These fuel cards were used by staff to fuel other TTC vehicles.	User groups do not regularly update their lists of active vehicles to ensure cards are assigned to active vehicles
User groups request the SCA to cancel cards and PINS when vehicles or employees are no longer active or employed.	We identified 8 PINs that were still active for inactive employees. We did not identify any fuelling transactions with these PINs.	The procedure does not hold user group managers accountable for timely notification to the SCA to cancel fuel cards or PINS. A review of active PINs and employee status is not regularly performed.

Cards were requested by management staff for decommissioned vehicles

Our review noted an overall high non-compliance level with the fuel card procedural requirements. Of particular concern were cards requested by user group management staff for vehicles that had been decommissioned. Our audit noted that four user groups requested nine fuel cards from the SCA Unit in November 2013 (during commencement of the current Petro Canada contract) for vehicles that had been decommissioned prior to 2012. These nine cards were used by staff to fuel different active vehicles within their user groups. This reiterates the existing staff practice of using a fuel card to fuel any vehicle within their user group regardless of the pre-assigned vehicle number printed on the fuel card.

PINs were not cancelled when employees were no longer with the TTC

In addition, our audit identified that eight PINs were still active for employees who were no longer with the TTC. While we did not identify any fuelling transactions by these PINs, our finding highlighted the risk arising from management staff's failure to notify the SCA Unit to cancel PINs when necessary.

Recommendation:

2. **The Board request the Chief Executive Officer to take the necessary steps to improve compliance with fuel card policy and procedural requirements, including but not be limited to:**

   a. **Developing additional procedural requirements to hold user group management staff accountable for non-compliance with fuel card policies;**

   b. **Undertaking an immediate review of active Personal Identification Numbers (PINs) to identify and cancel PINs previously assigned to employees who have since terminated their employment; and**

   c. **Developing procedures to facilitate timely notification and cancellation of PINs upon employment termination.**

C. Strengthening Administrative Monitoring and Controls

One staff person of the SCA Unit is designated as fuel card administrator

The specific roles and responsibilities of the SCA Unit are prescribed in the fuel card policy and procedures. One staff person of the SCA Unit is responsible for fuel card administration, and reports to a manager of the Materials and Procurement Department. Our review noted a number of areas where the effectiveness of the SCA Unit can be strengthened:

(1) Ensuring PINs are issued to employees only after obtaining signed user agreements

According to the fuel card policy and procedure, prior to PIN issuance, staff of the SCA Unit should obtain a signed user agreement from each cardholder.

Without a signed user agreement, employees cannot be held liable for inappropriate use of TTC fuel cards

Through our sample review, we noted an entire user group consisting of 152 employees was each issued a PIN before obtaining a signed user agreement from the employees. According to the SCA staff, management staff requested PINs without submitting the required signed user agreements. Without a signed user agreement, employees cannot be held liable for inappropriate use of TTC fuel cards. After we had raised our concern, staff advised that a signed user agreement has since been obtained from each of the 152 employees.

(2) Conducting an effective sample review

The SCA is responsible for monthly payment approval to Petro Canada

According to the fuel card policy and procedure, the SCA Unit is responsible for monthly invoice reconciliation and payment approval to Petro Canada. The Unit is also responsible for following up on discrepancies identified in monthly reconciliation.

Current sample review method is ineffective as user groups decide which records to be submitted to the SCA for review

Due to the large number of monthly transactions, the SCA Unit's monthly review is conducted on a sample basis. However, the SCA Unit allows management staff to select their own sample. The SCA Unit's current sampling method is to request each user group to submit any three to five fuel receipts each month to the Unit for review. While we agree with the need to restrict the review to a small sample due to the large volume of monthly transactions, for the review to be effective the sampled transactions should be selected by the SCA Unit staff rather than leaving it to management staff to submit the receipts of their choice.

(3) Providing exception reports to facilitate management review

No exception reports are provided to management staff to facilitate their review

The TTC's contractual agreement with Petro Canada includes a requirement for the fuel card provider to provide usage and performance reports as requested by the SCA Unit. Despite this contract provision, exception reporting requirements have not been defined and exception reports have not been provided to TTC management. Without exception reporting it is difficult for the SCA staff and user group management staff to identify unusual transactions and usage patterns.

In addition, our review of a sample of transactions identified a number of vehicles apparently showing unusually low fuel efficiency averaging two to four kilometers per liter of fuel. We were however unable to investigate further because of the difficulty in reconciling fuel usage with a specific vehicle under the current practice of allowing employees to use a fuel card to fuel any vehicle within their user group. Nonetheless, with an adequately designed policy and control system, these types of anomalies, along with transactions showing unusually high fuel volume or multiple fuelling of the same vehicle within a short time period, could be identified through regular exception reporting.

Recommendation:

3. **The Board request the Chief Executive Officer to strengthen existing fuel card administration and monitoring processes by the Systems Contract and Administration Unit. Steps to be taken should include but not be limited to:**

   a. **Ensuring the issuance of fuel cards and personal identification numbers are in accordance with the policy and procedural requirements;**

   b. **Improving the effectiveness of transaction sample reviews by the Systems Contract and Administration Unit; and**

   c. **Defining exception reporting requirements and providing regular exception reports to aid management review of fuel card transactions and monitoring.**

D.   Leveraging the City Fleet's Fuel Supply System

The possibility of using City fuel stations was explored

The City of Toronto Fleet Services Division currently operates 18 fuel stations, nine of which are operated on a 24/7 basis. In 2012 the City and the TTC staff initiated discussions on the possibility of fuelling TTC's NRVs at the City fuel stations.

The initiation was terminated based on the limited number of City fuel stations

According to a TTC staff memo, during the initial exploration stage TTC staff identified potential annual savings of approximately $100,000 and other operating benefits in utilizing the City fuel stations. However, TTC staff discontinued further exploration and a planned pilot project based on the limited number of City fuel stations. In 2012, TTC had a contract with Esso Canada which provided over 150 fuel stations throughout the greater Toronto area, according to the TTC document.

There may be merits to re-assess joining the City fuel supply system

Our current analysis indicates that there may be merits for TTC staff to re-assess the feasibility and potential benefits of using the City fuel supply system prior to the expiry of the contract with Petro Canada in 2016.

City's fuel cards will allow TTC staff to fuel at any commercial fuel station when a City operated station is not conveniently available

While the limited number of City fuel stations could potentially pose an operational issue to the TTC according to TTC staff, this concern may be mitigated by the existing City fuel card system. City staff are provided with a fuel card (issued by the National Bank of Canada) which can be used at any commercial fuel station in the event a City fuel station is not conveniently available. In fact, TTC has already joined the City's purchase card program and currently uses the City's purchase card for purchases other than NRV fuelling.

Combining the City and the TTC fuel cards may potentially result in more favorable terms and pricing from a fuel card provider thereby benefiting both the TTC and the City.

Potential cost savings from using City's fuel stations

In assessing the feasibility of using the City operated fuel stations, a geographic analysis of common TTC NRV worksites and proximity to City fuel stations may be needed. Furthermore, the City's Fleet Services Division purchases fuel in bulk and is able to offer City divisions a flat rate that is usually lower than commercial pump rates. Using the City fuel stations may therefore result in potential cost savings for the TTC in the long term.

New RFID technology may help improve TTC's controls over fuel usage

The City's Fleet Services Division is currently piloting new radio-frequency identification (RFID) technology to automate many aspects of fuel usage analysis and monitoring. The RFID technology if adopted by TTC will help improve its monitoring, controls and reporting of fuel usage. It may be worthwhile for TTC staff to evaluate the costs and benefits of adopting the RFID technology for its non-revenue fleet.

Recommendation:

4. **The Board request the Chief Executive Officer to, prior to issuing TTC's next fuel card contract in 2016, work with the Director of the City of Toronto Fleet Services Division to determine the feasibility and merits of utilizing the City's fuel supply system including the City operated fuel stations, the City fuel card, and the radio-frequency identification technology.**
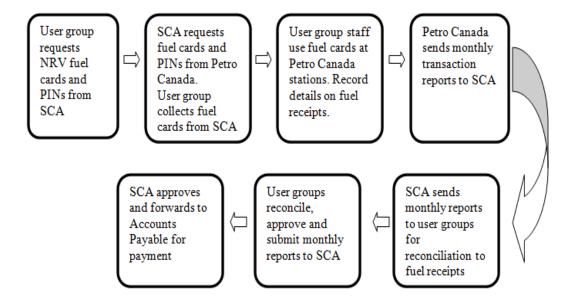
CONCLUSION

Four audit recommendations to help improve fuel card controls and reduce fuel costs in the long term

This report presents the results of our review of controls over fuel card usage for TTC's NRVs and equipment. Our review provided four recommendations to help improve existing controls and to explore collaborative opportunities with the City's Fleet Services Division. Our findings pertaining to fuel card control issues reiterate issues identified in a TTC's internal audit report on fuel management in 2004. These issues continue to exist to date.

All of the audit recommendations are in keeping with and supportive of the strategic objectives set out in the TTC's Five-Year Corporate Plan 2013-2017.

Exhibit 1

TTC Fuel card issuance and transaction approval process and staff's respective roles in fuel card administration (See page 5 Background)

| User group requests NRV fuel cards and PINs from SCA | ⇨ | SCA requests fuel cards and PINs from Petro Canada. User group collects fuel cards from SCA | ⇨ | User group staff use fuel cards at Petro Canada stations. Record details on fuel receipts. | ⇨ | Petro Canada sends monthly transaction reports to SCA |

| SCA approves and forwards to Accounts Payable for payment | ⇦ | User groups reconcile, approve and submit monthly reports to SCA | ⇦ | SCA sends monthly reports to user groups for reconciliation to fuel receipts |

Management's Response to the Auditor General's Review of
Toronto Transit Commission, Non-Revenue Vehicle Fuel Card Controls Need Immediate Improvement

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: *(Comments are required only for recommendations where there is disagreement.)*	Action Plan/Time Frame
1.	**The Board request the Chief Executive Officer to review and revise the current fuel card policy and procedures such that adequate controls are developed and implemented to facilitate effective monitoring of fuel card transactions and detection of questionable transactions.**	X			Staff will review the current policies and procedures for fuel card use with key User Departments to determine the appropriate changes required to improve controls. Controls to be reviewed will include those recommended in the Audit Report – reference Recommendations 2-4 The reviews by working group will be established and scheduled in Q1 with actions implemented in Q3.

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2.	**The Board request the Chief Executive Officer to take the necessary steps to improve compliance with fuel card policy and procedural requirements, including but not be limited to:** a. **Developing additional procedural requirements to hold user group management staff accountable for non-compliance with fuel card policies;** b. **Undertaking an immediate review of active Personal Identification Numbers (PINs) to identify and cancel PINs previously assigned to employees who have since terminated their employment; and** c. **Developing procedures to facilitate timely notification and cancellation of PINs upon employment termination.**	X			See response to Recommendation #1 NOTE: Staff have commenced review of active Personal Identification Numbers (PIN) to ensure PIN's assigned to non-active employees are cancelled. Review and corrective action is expected to be completed by the end of Q1 2015

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3.	**The Board request the Chief Executive Officer to strengthen existing fuel card administration and monitoring processes by the Systems Contract and Administration Unit. Steps to be taken should include but not be limited to:** a. **Ensuring the issuance of fuel cards and personal identification numbers are in accordance with the policy and procedural requirements;** b. **Improving the effectiveness of transaction sample reviews by the Systems Contract and Administration Unit; and** c. **Defining exception reporting requirements and providing regular exception reports to aid management review of fuel card transactions and monitoring.**	X			See response to Recommendation #1

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4.	**The Board request the Chief Executive Officer to, prior to issuing TTC's next fuel card contract in 2016, work with the Director of the City of Toronto Fleet Services Division to determine the feasibility and merits of utilizing the City's fuel supply system including the City operated fuel stations, the City fuel card, and the radio-frequency identification technology.**	X			Staff is part of the Shared City Service working group. Staff has already commenced a review of the City Fuelling Sites. Initial review indicated there is an insufficient number of fuelling sites for TTC vehicles to access. City Staff indicate new Super Fuelling Sites are being constructed. TTC Staff will review these new locations, capacity and proximity to TTC work locations to determine potential merits for use of these sites