

Audit of the CNMI Government Fuel Contract



OPA Report No.
20-02



Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

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January 28, 2020

David Atalig
Secretary of Finance
Department of Finance
P.O. Box 5234 CHRB
Saipan, MP 96950

Dear Secretary Atalig:

Report on the Audit of the CNMI Government Fuel Supply/Fleet Card System Contract

This report presents the Office of the Public Auditor's (OPA) audit of the CNMI Government Fuel Contract. This contract allows for all government vehicles within the CNMI Executive Branch to purchase fuel from one supplier.

Our audit offers five recommendations that encompasses the adoption and implementation of controls to regulate and monitor fuel card usage and fuel purchases, monitor contractor compliance, and communicate policies to applicable government entities. In addition, we believe that implementation of these recommendations will address the report findings, improve accountability, and reduce the risk of fraud, waste and abuse.

We appreciate the response received from your office and based on our review of the response, OPA considers all recommendations unresolved. The law requires OPA to report semiannually on the audited entity's compliance with OPA's recommendations. OPA will make contact with DOF every June and December until all recommendations are resolved.

As required by law and the auditing standards, all reports issued by OPA are made public and can be found on OPA's website at www.opacnmi.com.

Sincerely,

Michael Pai, CPA
Public Auditor

Enclosures
MP/db/gt/tr

cc: Honorable Ralph DLG. Torres, Governor
David Blake, OPA
Geraldine Tenorio, OPA

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Results in Brief

In 2016, the Department of Finance (DOF) issued an Invitation-to-Bid (ITB) to procure fuel products through a fleet card system for government vehicles. There was only one responsive bidder. A one-year contract (the Fuel Contract) was executed that took effect on February 1, 2017. The Fuel Contract included a provision that would allow a contract extension. DOF exercised this provision, subsequently extending the contract for another year or until February 1, 2019.

Our audit disclosed that the Department of Finance, Division of Procurement and Supply (P&S) has not exercised oversight of its fuel contract with its third-party contractor. Specifically, DOF:

- Did not regulate the issuance, renewal, and cancellation of fuel cards;
- Was unable to implement controls on corporate cards due to the inherent nature of corporate cards; and
- Did not review third-party Contractor billings for completeness and compliance with the Fuel Contract.

As such, the CNMI risks noncompliance with the Fuel Contract terms and conditions and improper or unauthorized purchases of fuel at the government's expense.

Introduction

Objective

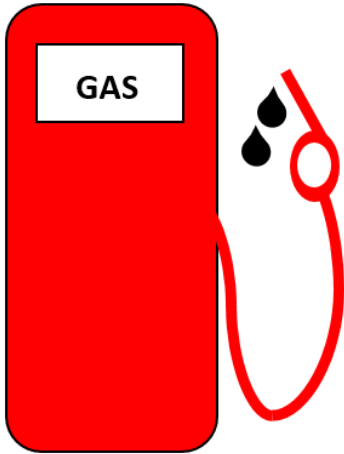
The objective of the audit is to (1) assess the adequacy of DOF’s contract oversight, and (2) determine if the third-party contractor (Contractor) complied with the Fuel Contract terms and conditions to detect and prevent unauthorized purchases.

Please see *APPENDIX 1* for the scope and methodology of our audit.

Background

According to the Department of Finance regulations, specifically the Northern Mariana Islands Administrative Code (NMIAC) § 70-30.2-115(a), “unless approved by a Director, all government vehicles shall be fueled only at the CNMI centralized fuel station maintained and operated by the Department of Public Works at Lower Base. However, government vehicles may be fueled elsewhere as long as it does not incur any cost to the government and all such costs are borne by the employee or government official.” The CNMI government no longer operates the centralized fuel station and instead has contracted a third party for its supply of fuel products.

In 2016, DOF issued an ITB to procure fuel products through a fleet card system for government vehicles. The lone bidder to the ITB was awarded a one-year Fuel Contract that took effect on February 1, 2017. Before the scheduled expiration date in February 2018, DOF exercised the contract extension provision and extended the Fuel Contract for another year or until February 1, 2019. Prior to the extension’s expiration, DOF issued another ITB and awarded a new contract to the same vendor on February 2, 2019.

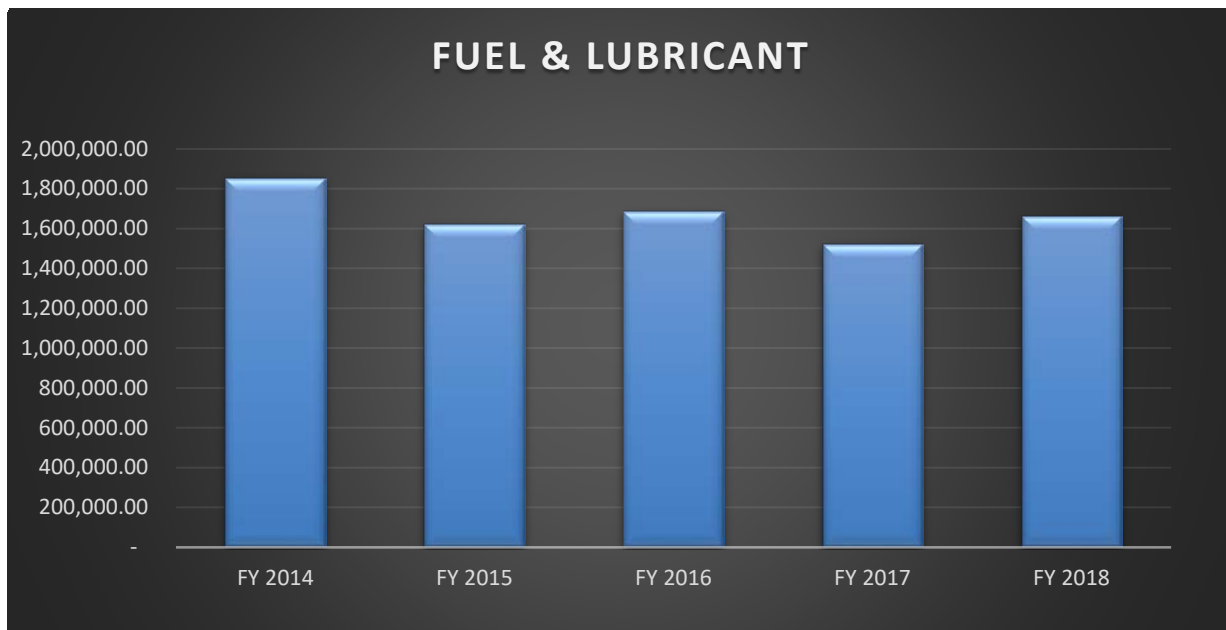


In 2017, the CNMI government procured fuel for its government vehicles via Fuel Contract, 625655-OC.

From Fiscal Year 2014 to 2018, the CNMI government spent an average of \$1.67M each year on fuel and lubricants. This amount included Rota and Tinian fuel purchases which are not covered under the Fuel Contract.

| ACCOUNT DESCRIPTION | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|-----------------------------|---------|---------|---------|---------|---------|
| FUEL & LUBRICANT | \$1.85M | \$1.62M | \$1.69M | \$1.52M | \$1.66M |

Source: CNMI Department of Finance



Source: CNMI Department of Finance

The Office of the Public Auditor (OPA) has not reviewed the CNMI government’s fuel expenditures prior to this audit.

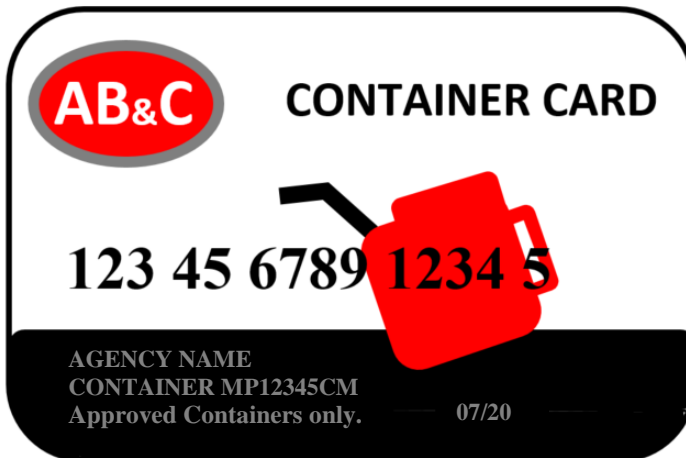
Types of Government-Issued Fuel Cards



Fleet cards issued to the CNMI government bear the license plate number (LP no.) and the agency to which it is assigned. In this example to the left, this card belongs to an agency with a vehicle bearing LP no. 12-34.



Corporate cards issued to the CNMI government only indicate the agency to which it is assigned. In this example to the left, this card belongs to an agency. However, because there is no LP no., as per station operators, it can be used to purchase any type of fuel or lubricant for any type of vehicle.



Container cards issued to the CNMI government indicate the agency it is assigned to and explicitly state that it is to be used for containers. However, the Fuel Contract states that container cards are to bear the container number. In this example to the left, this card belongs to the agency and can only fuel approved containers. This card can only dispense fuel for container MP12345CM.

Source: Contractor

Findings

Our audit found that DOF lacked oversight over its Fuel Contract with its third-party Contractor, and is unable to ensure controls are present to detect and prevent unauthorized fuel purchases. Specifically, DOF:

1. Did not regulate the issuance, renewal, and cancellation of fuel cards;
2. Was unable to implement controls over corporate cards due to the inherent nature of corporate cards; and
3. Did not review third-party Contractor billings for completeness and enforce provisions of the Fuel Contract.

OPA sampled 12 government agencies—nine within the Executive Branch, the Office of the Attorney General, and the Saipan and Northern Islands mayor’s offices—to examine their respective fuel expenditures in the last three months of Fiscal Year 2018. The fuel expenditures of these agencies consist of about 5,400 fuel transactions with a combined total of \$257,300 billed to the CNMI Government. The audit was performed in accordance with generally accepted government auditing standards.

See *APPENDIX 1* for scope and methodology.

DOF did not regulate the issuance, renewal, and cancellation of fuel cards

DOF does not regulate the issuance, renewal, and cancellations of fuel cards. During our audit, DOF informed OPA that agencies are expected to obtain DOF’s prior approval before requesting fuel cards. However, DOF shared that sometimes agencies will circumvent their office and communicate directly with the Contractor to apply for a fuel card. Interviews with agencies have confirmed that they do not always go through DOF.

In a separate interview, the Contractor shared that agencies with an existing account may request for additional or renew existing fuel cards without DOF’s involvement, because DOF had approved its initial request. As such, DOF is left unaware of any additional fuel cards obtained by agencies. These can include corporate cards which are not mentioned in the Fuel Contract. In addition, cancellation of fuel cards is left at the discretion of individual agencies and are not communicated to DOF. Further, DOF does not have policies on cancellation of cards.

Moreover, OPA found that DOF did not keep a listing of all active fuel cards. The listing was made available through the Contractor to DOF at the request of OPA. Had DOF developed and monitored a listing of its fuel cards, it would have learned of agency-fleet cards acquired for employees’ personally-owned vehicles (POV). During OPA’s survey in July 2018, OPA identified two fleet cards assigned to two employees’ POV of which fuel purchases were paid for by the government. However, the agency could not produce records, in support of fuel purchases, for all miles driven to perform official government purposes. Prior to the issuance of the fleet cards for the POVs, the agency had been using a fleet card for a government vehicle, that had

been surveyed more than a year ago, to purchase fuel for the employee's POV. The Contractor was fully aware of this, because the agency had notified the Contractor beforehand. DOF has separate regulations that prescribe the procedures and mileage rate used to reimburse the use of an employee's POV for official government business. These regulations were not known or followed by the agency, nor were these regulations enforced by DOF.

Best practices and the *Standards for Internal Controls in the Federal Government* (Standards), state that "management should use quality information to achieve the entity's objectives." The Standards consider quality information to be appropriate, current, complete, accurate, accessible, and provided on a timely basis. Furthermore, the Standards require that management collect data on a timely basis so that they can be used for effective monitoring. Quality data enables management to make informed decisions aligned with the agency's key objectives while also minimizing risks that may arise.

A master listing of all cards can aid in the prevention and detection of unauthorized fuel cards. Because DOF does not keep a record of all fuel cards issued to the government, it cannot effectively monitor fuel card issuance. Although the CNMI government's Fuel Contract is valid for one year, fuel cards can continue to remain active for longer than one year. As such, monitoring fuel card usage is essential to ensure that cards are kept by appropriate and authorized agencies.

The Standards also state that "management should implement control activities through policies and procedures." Standard Operating Procedures (SOPs) ensure that an entity achieves its mission through efficiency, quality output, and uniformity of performance, while reducing miscommunication and noncompliance with laws, regulations, and contracts. However, interviews with DOF reveal that DOF has not developed any SOPs for the issuance, renewal, and cancellation of fuel cards.

To provide an example of the significance of policies and procedures, OPA identified purchases from fuel cards assigned to inoperable or surveyed vehicles. Had OPA not conducted a physical inspection of the vehicles in relation to another audit, OPA would not have learned of these purchases. During the months of July through September 2018, a total of \$2,100 of fuel was purchased using the fleet cards of those inoperable vehicles. These occurred and were undetected because DOF has no policies and procedures regarding the cancellation of fuel cards assigned to vehicles that have become inoperable and/or surveyed, or vehicles with expired leases.



Figure 1. Despite being found as inoperable, OPA found fuel purchases made using the above vehicle's fleet card.

Having a formal policy on the issuance, renewal, and cancellation of fuel cards can aid DOF in the recording and monitoring of all active cards. SOPs can streamline the procurement processes and allow DOF to make informed decisions that would decrease risks of unauthorized fuel purchases.

OPA recommends:

1. DOF adopt, implement, and communicate policies and procedures (SOPs) for the issuance, renewal, and cancellation of fuel cards; and
2. DOF maintain a listing of all fuel cards.

DOF was unable to implement controls over corporate cards, due to its inherent nature

The term “corporate card” is nowhere mentioned in the Fuel Contract, and therefore does not mention any provisions or restrictions for the use of corporate cards. Moreover, OPA found that there are no controls over corporate card usage. According to the Fuel Contract, “all designated government vehicles and/or containers will be provided with one Fleet Card good towards fuel and lubricant purchases for that vehicle only.” Furthermore, the service attendant “verifies that the card and imprinted license plate number match. If they do not match, fuel will not be dispensed into the vehicle.” Unlike fleet cards, corporate cards are not imprinted with any vehicle license plate or container tag number making it prone to abuse through unrestricted purchases.

During a review of the supporting documents, OPA found that seven of the 12 agencies were issued a total of 13 corporate cards. OPA was not provided scanned copies of three corporate cards belonging to the Office of Homeland Security and Emergency Management (HSEM) and one corporate card belonging to the Department of Public Safety (DPS). However, OPA was able to identify these cards in their respective agency billing statements. Absent guidelines from DOF and the Fuel Contract, the Department of Public Works (DPW) and the Saipan Mayor’s Office (SMO) established control measures within their agencies to ensure corporate card purchases are authorized and used only for official government business.

OPA analyzed 2,632 corporate card transactions with a combined value of \$116,849 and found incomplete information and irregularities on several agency-provided receipts. See *APPENDIX 2* for more information. Of the 2,632 transactions:

- 271 receipts did not record odometer readings;
- 215 receipts did not have the printed name of the operator; and
- 330 receipts were not accounted for, amounting to a total of \$15,810.

Of the seven agencies who were issued corporate cards, OPA noted that DPS has the most corporate card transactions and was the only agency whose receipts had license plate numbers recorded and also indicated whether containers or watercrafts were fueled. However, OPA could not determine if 39 non-government license plates were assigned to DPS.

OPA learned of a 2018 memorandum requiring agencies with corporate cards to submit a detailed report on corporate card purchases before payment can be processed. See *APPENDIX 3* for a copy of DOF’s memorandum. In our inquiry with DOF, OPA found that this policy was not enforced. Although the scope for review of corporate card transactions was limited to 12 agencies covering a three-month period, the risks of corporate card abuse exist within all other agencies who use corporate cards. OPA notes that even after DOF issued the 2018 memorandum, agencies have not been held accountable for noncompliance with the policies stated on the

memorandum. Because controls for corporate cards are currently nonexistent, the CNMI government is at risk for future unauthorized purchases.

OPA recommends:

DOF replace all corporate cards with fleet cards until DOF develops and implements controls, including monitoring controls, over the government's use of corporate cards.

DOF did not review third-party billings for completeness and enforce provisions of the Fuel Contract

As a party to the contract and as a best practice, DOF should exercise oversight to ensure compliance is met. In particular, OPA paid close attention to the adequacy of the Contractor's billing statements and the actions taken by DOF and agencies through its review of those documents. We found that DOF did not review fuel billings, and the Contractor's billings were incomplete. Specifically, the billings lacked 1) operator names, 2) license plate or tag numbers, and 3) odometer readings. OPA's analyses of the billings found instances where fuel was dispensed into vehicles or containers that did not match the fuel card used. Moreover, OPA found that DOF made it difficult for the Contractor to enforce the controls over gas container purchases because containers were not tagged by the Division of Procurement & Supply (P&S).

Incomplete Billing Statements

According to the Fuel Contract, the Contractor's billing statements should contain the following information:

- vehicle license plate or gas container tag number;
- quantity and description of item(s) drawn;
- date and time;
- amount per gallon or unit item;
- fleet authorization code;
- operator name;
- total charges; and
- miles driven in between fills.

OPA received billing statements from all 12 agencies. Of those billing statements received, nine out of 12 agencies did not provide a total of 493 receipts. See *APPENDIX 2* for more details. Despite missing receipts to support the billing statements, agencies still requested for payments through DOF. DOF informed OPA that should receipts be lacking, the agency must request copies from the Contractor for payment processing. Unlike receipts that are maintained by the agencies for submission to DOF, billing statements are provided by the Contractor on a monthly basis.

The billing statements present fuel purchases by fuel card number with information on purchase date, location, number of gallons, unit price, total transaction amount, and odometer reading. OPA found that the billing statements do not provide the operator name and license plate or container tag number for each transaction as required by the Fuel Contract. Instead, this information is provided in the receipts, if maintained and provided by the agencies.

About 20 percent of the receipts reviewed did not include the operator's name. In addition, billing statements did not have odometer readings in 31 percent of the total fuel transactions. Because odometer readings were absent, the miles driven between fills could not be determined for most of the transactions. See *APPENDIX 2* for more information.

DOF's reliance on the agency expenditure authority to ensure that fuel was purchased for official government purposes and the lack of information on fuel documents indicate that DOF did not review billing statements and receipts for compliance with the contract terms and conditions. The information on operator name, license plate or container tag number, and odometer readings can be valuable to management to determine if fuel cards are being used by authorized employees, if fuel is being dispensed in the appropriate vehicle or container, and if fuel purchases are reasonable.

Information that Suggests Controls are not Enforced

As mentioned earlier, the Fuel Contract requires that, "all designated government vehicles and/or containers will be provided with one (1) Fleet Card good towards fuel and lubricant purchases for that vehicle only." Furthermore, the service attendant "verifies that the card and imprinted license plate number match. If they do not match, fuel will not be dispensed into the vehicle." In addition, containers are to be tagged and bear the governmental unit to which it is assigned. This also means that fuel can only be dispensed into containers that match the tag number imprinted on the fuel container cards. OPA found that out of 21 container cards, only 4 were imprinted with a number.

OPA found that the controls specifically mentioned by the Fuel Contract were not always adhered to. Nonetheless, purchases were made for vehicles that did not match the license plate number on the fleet card. OPA found 41 transactions in the billing statements where fuel was actually dispensed in vehicles that did not match the respective fuel cards. However, we suspect this number to be higher due to missing receipts, the way the Contractor's system records license plate or container numbers, and the anomalies present in the billing statements. According to interviews with station operators, fuel is sometimes dispensed despite the fleet card and the license plate not matching regardless of the clear restrictions written in the contract.

For example, in our review of the Department of Fire and Emergency Management Services' billing statements, OPA found that a fleet card assigned to a vehicle was used to fuel a watercraft instead. Improper use of this fleet card would not have been discovered without verifying the receipts. See Figures 2 and 3 for more details.

AB&C
Fueling Excellence

Date/Time: 7/16/18

Sale

CARD NUM: 123456789012345 Manual
 EXP DATE: 12/34
 CARD TYPE: FLEET CARD
 APRR CODE: 123456
 RECEIPT #: 4442
 ODOMETER: 00000000
 PLATE NO.: BOAT

| VOLUME | DESC | UT PRICE | SUB TOTAL |
|--------|------------|----------|-----------|
| 42.478 | SELF V-POW | 4.439 | \$188.56 |

TOTAL AMOUNT: \$188.56
 I AGREE TO PAY THE ABOVE TOTAL AMOUNT
 ACCORDING TO THE CARD ISSUER AGREEMENT

 Driver's Signature

 Print Driver's Full Name

THANK YOU!

Figure 2. Source: Contractor's Receipt

Figure 3. Source: Contractor's Billing Statement

| DATE | RECEIPT # | PROD | GALLONS | UNIT PRICE | TOTALS | ODM | MILES | MPG | CPM |
|---------------|---------------|---------|---------|------------|--------|---------|-------|------|-----|
| 7/01 | 19:46 1677 | V PWR | 18.698 | 3.840 | 71.80 | 0032790 | 0 | 0.00 | .00 |
| 7/01 | 19:46 1677 | LUBR | | 11.980 | 11.980 | 0032790 | 0 | 0.00 | .00 |
| 7/04 | 10:18 1979 | V PWR | 15.130 | 3.840 | 58.10 | 0000000 | 0 | 0.00 | .00 |
| 7/07 | 15:00 2223 | V PWR | 13.742 | 3.840 | 52.77 | 0033030 | 24 | | |
| 7/11 | 11:41 2521 | V PWR | 19.390 | 3.840 | 74.46 | 0000000 | 0 | | |
| 7/13 | 14:15 9125 | V PWR | 16.447 | 3.840 | 63.16 | 0000000 | 0 | | |
| 7/15 | 16:41 9246 | V PWR | 20.500 | 3.840 | 78.72 | 0000000 | 0 | | |
| 7/16 | 17:44 4442 | V PWR | 42.478 | 3.840 | 163.12 | 0000000 | 0 | | |
| 7/17 | 21:10 3142 | V PWR | 18.247 | 3.840 | 70.07 | 0003621 | 59 | | |
| 7/20 | 09:33 3440 | V PWR | 13.967 | 3.840 | 53.63 | 0033718 | 97 | | |
| 7/21 | 10:31 3537 | V PWR | 13.622 | 3.840 | 52.31 | 0033841 | 123 | 8.81 | .43 |
| 7/21 | 10:31 3537 | LUBR | | 17.970 | 17.97 | 0033841 | 0 | 0.00 | .00 |
| 7/26 | 09:43 3981 | V PWR | 14.868 | 14.868 | 57.09 | 0000000 | 0 | 0.00 | .00 |
| CARD # | 2345 GOVT1234 | SubTot: | 207.089 | | 825.18 | | 1051 | 5.08 | .33 |

Missing odometer readings despite the Fuel Contract requiring them.

Figure 2 shows a receipt no. 4442 and its corresponding billing statement (Figure 3). However, the receipt shows that a BOAT was fueled despite the fleet card belonging to a government vehicle license plate no. 12-34.

In another example, the billing statement for one fleet card contained transactions with inconsistent odometer readings. The odometer readings for these transactions suggested that the fleet card was used to fuel more than one vehicle. Such occurrences also contradict the control provisions within the Fuel Contract. See Figure 4 for more details.

Figure 4. Source: Contractor's Billing Statement

| DATE | RECEIPT # | PROD | GALLONS | UNIT PRICE | TOTALS | ODM | MILES | MPG | CPM |
|---------------|---------------|---------|---------|------------|---------|---------|-------|-------|-----|
| 7/18 | 11:50 3224 | V PWR | 11.946 | 3.840 | 45.87 | 0000000 | 0 | 0.00 | .00 |
| 7/19 | 15:35 3342 | V PWR | 20.050 | 3.840 | 76.99 | 0045473 | 324 | 27.12 | .24 |
| 7/21 | 17:19 9636 | V PWR | 16.772 | 3.840 | 64.40 | 0000000 | 0 | 0.00 | .00 |
| 7/21 | 18:24 5270 | V PWR | 15.769 | 3.840 | 60.55 | 0085115 | 0 | 0.00 | .00 |
| 7/23 | 21:20 3691 | V PWR | 21.176 | 3.840 | 81.32 | 0045891 | 776 | 49.21 | .10 |
| 7/26 | 09:50 9930 | V PWR | 15.882 | 3.840 | 60.99 | 0085354 | 143 | 143 | .43 |
| 7/26 | 11:00 9937 | V PWR | 15.235 | 3.840 | 58.59 | 0046068 | 714 | 316.9 | .08 |
| 7/27 | 09:14 4086 | V PWR | 13.546 | 3.849 | 52.02 | 0000000 | 0 | 0.00 | .00 |
| 7/27 | 19:08 0023 | V PWR | 14.868 | 3.840 | 57.09 | 0005541 | 0 | 0.00 | .00 |
| 7/27 | 21:02 0027 | V PWR | 13.517 | 3.840 | 51.92 | 0046360 | 919 | 61.81 | .06 |
| 7/29 | 22:21 0112 | V PWR | 14.418 | 3.840 | 55.37 | 0085548 | 0 | 0.00 | .00 |
| CARD # | 2345 GOVT4321 | SubTot: | 402.003 | | 1599.58 | | 4739 | 11.79 | .25 |

Figure 4 shows examples of anomalies found in the billing statements. In the above example, one fleet card's billing statement shows purchases with two separate, but correlating odometer readings (green and orange) recorded over seven days. This could have served as a red flag indicating the possibility that two vehicles were fueled using the same card.

In addition, OPA conducted a physical inspection of containers and found that **NO** containers were tagged with an official CNMI property tag and did not always bear the agency name. The inspection revealed that some agencies had marked their containers using a permanent marker. Such practices can be easily manipulated for non-government containers. See Figures 5 and 6 for examples of agency container markings.



Figure 5: Gas Containers belonging to the DPS - Boating Safety are marked with stars.
Source: DPS



Figure 6: Gas Containers belonging to DLNR – Division of Fish and Wildlife are marked with "For Gas Only". Source: DLNR-DFW

Moreover, billing statements and interviews with employees confirmed that one container card was used to purchase fuel for more than one gas container. The improper or lack of tagging increases the risk of container cards being used to fill non-government containers, especially since agencies do not comply with the “one container card per container” provision as outlined in the Fuel Contract.

The billing statement information as required by the Fuel Contract can be used to detect unauthorized purchases. For example, unreasonable mileage spikes or separate, but correlating odometer readings suggest that a fuel card is being used for multiple vehicles. Likewise, by requiring names and signatures on receipts, DOF and the agencies can ascertain whether purchases were made by authorized employees.

However, it appears that DOF relies solely on the agencies’ expenditure authorities to ensure that fuel purchases were made for official government purposes. Based on our review, agencies do not always review their billings for completeness and compliance prior to submitting them to DOF. Had DOF reviewed the billings more closely, DOF would have concluded that the Contractor-provided billings were incomplete, and controls are either non-existent or inadequate to prevent and detect unauthorized purchases.

OPA recommends:

1. DOF develop procedures to (a) evaluate the Contractor’s compliance with the Fuel Contract; (b) adequately review billings; (c) monitor the effectiveness of controls; and (d) properly tag and label government gas containers.; and
2. DOF communicate provisions of the Fuel Contract and require agencies to adopt the above procedures.

Conclusion and Recommendations

Because the central government no longer operates a government-owned fueling station and has outsourced its supply of fuel, DOF has transferred the controls over to the Contractor. To ensure that the controls are working properly, DOF must evaluate whether the Contractor has complied with the Fuel Contract and hold the Contractor accountable for noncompliance with the contract. DOF also needs to take a more active role by establishing policies to better monitor the usage of fuel cards. Additionally, DOF needs to work on communicating quality information internally and externally to improve efficacy and mitigate related risks.

Recommendation Summary

We recommend that DOF:

1. Adopt, implement, and communicate policies and procedures (SOPs) for the issuance, renewal, and cancellation of fuel cards;
2. Maintain a listing of all fuel cards;
3. Replace all corporate cards with fleet cards until DOF develops and implements controls, including monitoring controls, over the government's use of corporate cards;
4. Develop procedures to (a) evaluate the Contractor's compliance with the Fuel Contract; (b) adequately review billings; (c) monitor the effectiveness of controls; and (d) properly tag and label government gas containers; and
5. Communicate provisions of the Fuel Contract and require agencies to adopt the above procedures.

Summary of Responses

The DOF Secretary agreed with all of OPA's findings in a response letter received on January 20, 2020. The Secretary did not explicitly state whether DOF would implement all the recommendations provided by OPA. Nevertheless, the Secretary stated in his response that DOF will continue work to address all findings. Please see *APPENDIX 4* for DOF's full response.

OPA is mandated to report on audited agencies' compliance with our recommendations. We will conduct a follow-up review to determine if DOF has implemented the recommendations in the next Audit Recommendation Tracking System report in June 2020.

Appendix 1. Scope and Methodology

The scope of our audit covered the third-party's fuel contract, including all fuel cards issued to government vehicles and containers tagged or tracked by the Department of Finance, Division of Procurement and Supply and related billing records from July to September 2018. This audit did not cover corporate cards belonging to other agencies. When necessary, OPA reviewed documents outside the intended scope. To achieve our objective, we performed the following:

Gained an understanding of the Fuel Contract and applicable laws and regulations, policies and procedures:

- Interviewed staff and conducted walk-throughs to determine the following:
 - The process of obtaining a fuel card;
 - Information provided on the fuel card;
 - Number of fuel cards provided per government agency;
 - Verification process for charging fuel;
 - Monitoring process; and
 - Billing process.
- Selected agencies with 15 or more vehicles and obtained a listing of fuel cards with those agencies and all related billing documents from July to September 2018. OPA also included the other Mayor's Offices under the fleet card program for a total of 12 agencies. Rota Liaison Office (RLO) was also included in this sample, but did not provide OPA any documents. Documents were reviewed and tested for completeness and compliance with applicable contract terms and conditions.
- Summarized audit results.

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.




Appendix 2. Tables

| Agency | Fuel Cards | | | |
|--|------------|------------|-----------|------------|
| | Corporate | Fleet | Container | Total |
| Bureau of Environmental & Coastal Quality | 0 | 24 | 1 | 25 |
| Department of Community & Cultural Affairs | 0 | 43 | 3 | 46 |
| Department of Finance | 0 | 25 | 2 | 27 |
| Department of Fire & Emergency Management Services | 0 | 30 | 1 | 31 |
| Department of Land & Natural Resources | 1 | 52 | 7 | 60 |
| Department of Public Lands | 0 | 12 | 0 | 12 |
| Department of Public Safety | 2 | 1 | 1 | 4 |
| Department of Public Works | 4 | 2 | 1 | 7 |
| Office of Homeland Security & Emergency Management | 3 | 11 | 1 | 15 |
| Office of the Attorney General | 1 | 13 | 0 | 14 |
| Saipan Mayor's Office | 1 | 24 | 4 | 29 |
| Northern Islands' Mayor's Office | 1 | 0 | 0 | 1 |
| Totals | 13 | 237 | 21 | 271 |


| Agency | No. of Billing Transactions | Billing Transaction Totals | Receipts Unaccounted For | | Operator Name not Printed on Receipt | Receipts Unsigned By Operator | Odometer Reading Unrecorded |
|--|-----------------------------|----------------------------|--------------------------|---------------------|--------------------------------------|-------------------------------|-----------------------------|
| | | | No. of Receipts | Amount | | | |
| Bureau of Environmental & Coastal Quality | 114 | \$ 6,080.73 | 0 | \$ - | 16 | 8 | 36 |
| Department of Community & Cultural Affairs | 265 | \$ 11,461.44 | 1 | \$ 64.88 | 52 | 13 | 107 |
| Department of Finance | 304 | \$ 15,229.25 | 7 | \$ 385.08 | 103 | 75 | 114 |
| Department of Fire & Emergency Management Services | 588 | \$ 32,546.57 | 15 | \$ 777.51 | 123 | 23 | 193 |
| Department of Land & Natural Resources | 647 | \$ 29,864.25 | 56 | \$ 2,474.76 | 354 | 100 | 392 |
| Department of Public Lands | 64 | \$ 3,845.19 | 0 | \$ - | 2 | 0 | 32 |
| Department of Public Safety | 2071 | \$ 87,538.39 | 209 | \$ 8,035.63 | 217 | 13 | 178 |
| Department of Public Works | 529 | \$ 31,128.82 | 0 | \$ - | 0 | 0 | 115 |
| Office of Homeland Security & Emergency Management | 181 | \$ 11,105.81 | 181 | \$ 11,105.81 | 0 | 0 | 58 |
| Office of the Attorney General | 45 | \$ 2,033.41 | 4 | \$ 209.19 | 4 | 1 | 20 |
| Saipan Mayor's Office | 556 | \$ 25,357.29 | 6 | \$ 305.18 | 190 | 19 | 407 |
| Northern Islands' Mayor's Office | 14 | \$ 1,097.44 | 14 | \$ 1,097.44 | 0 | 0 | 13 |
| Totals | 5,378 | \$ 257,288.59 | 493 | \$ 24,455.48 | 1,061 | 252 | 1,665 |

| Agency | No. of Billing Transactions | Billing Transaction Totals | Odometer Reading Unrecorded | Operator Name not Printed on Receipt | Receipts Unsigned By Operator | Receipts Unaccounted For | |
|--|-----------------------------|----------------------------|-----------------------------|--------------------------------------|-------------------------------|--------------------------|---------------------|
| | | | | | | No. of Receipts | Amount |
| Department of Public Works | 439 | \$ 21,577.56 | 28 | 0 | 0 | 0 | \$ - |
| Department of Land & Natural Resources | 9 | \$ 576.30 | 9 | 7 | 1 | 0 | \$ - |
| Northern Islands' Mayor's Office | 14 | \$ 1,097.44 | 13 | 0 | 0 | 14 | \$ 1,097.44 |
| Office of the Attorney General | 4 | \$ 195.35 | 1 | 0 | 0 | 3 | \$ 143.45 |
| Saipan Mayor's Office | 1 | \$ 36.54 | 1 | 0 | 0 | 0 | \$ - |
| Department of Public Safety | 2052 | \$ 86,162.83 | 173 | 208 | 4 | 200 | \$ 7,366.09 |
| Office of Homeland Security & Emergency Management | 113 | \$ 7,203.02 | 46 | 0 | 0 | 113 | \$ 7,203.02 |
| Totals | 2,632 | \$ 116,849.04 | 271 | 215 | 5 | 330 | \$ 15,810.00 |

Appendix 3. DOF Memorandum


| | | |
|---|--|---|
|  | Office of the Secretary Department of Finance |  |
| <small>P.O. Box 5234 CHRBSAIPAN, MP 96950 TEL (670) 664-1100 FAX: (670) 664-1115</small> | | |
| MEMORANDUM | | |
| DATE: | June 25, 2018 | SFM2018-143 |
| TO : | All Government Departments and Agencies | |
| FROM: | Secretary Department of Finance | |
| SUBJECT: | PROCESSING OF PAYMENTS FOR IP&E CORPORATE CARDS | |
| <p>Effective immediately, the Department of Finance will only process payments for IP&E Corporate Cards that were approved by myself or the Director of Procurement & Supply. <i>Please note that corporate cards differ from the fleet cards assigned to each government vehicle.</i></p> <p>In addition, all requests for payment on approved corporate cards are to be accompanied by a request and/or report that itemizes the following:</p> <ul style="list-style-type: none">• Name of individual purchasing fuel• License Plate Number• Title and Place of Employment in Government• Justification for Purchase of Fuel on a Government Corporate Card• Vehicle log of mileage for fuel purchased on government corporate card• Any other documents that demonstrate public purpose of the fuel purchase <p>IP&E has also been notified of this policy and will be required to pursue payment from the individuals who incur fuel charges using a non-government issued corporate card in their personal capacity.</p> <p>If you have any questions or additional concerns, please contact me by telephone at (670) 664-1100 or by email at larrisa.larson@gov.mp.</p> <p>Sincerely,</p> <p> Larrisa C. Larson</p> <p>cc: DOF P&S Director DOF F&A Director DOF CNMI Treasurer</p> | | |

Appendix 4. DOF Response



**Office of the Secretary
Department of Finance**

P.O. Box 5234 CHRBSAIPAN, MP 96950 TEL (670) 664-1100 FAX: (670) 664-1115



January 20, 2020 SFL 2020-075

Michael Pai, CPA
Public Auditor
Office of the Public Auditor
1236 Yap Drive, Capitol Hill
Saipan, MP 96950

RE: Audit of the Mariana Acquisition Corporation Fuel Supply/Fleet Card System Contract

Dear Mr. Pai:

We have reviewed the draft report on the Audit of the Mariana Acquisition Corporation Fuel Supply/Fleet Card System Contract. The following is a response to the findings identified in the audit report.

| | |
|---------------------------|---|
| Finding: | DOF did not regulate the issuance, renewal, and cancellation of fuel cards. |
| Contact Person: | David Dlg. Atalig, Secretary of Finance |
| Corrective Action: | DOF agrees with this finding. DOF will inform agency heads periodically the process to obtain fuel cards. Additionally, discussions with the vendor will be ongoing for valid fuel card issuance to ensure that agencies are not circumventing DOF. Also, updates to our procurement systems and processes is currently undergoing major review to ensure that fuel purchases and mechanisms are updated and controlled. In the near future, DOF plans to implement a P-card program that will allow DOF more control measures to directly account for expenditures in real-time and make more responsible individual agencies and cardholders. |
| Completion Time: | Ongoing |

| | |
|---------------------------|---|
| Finding: | DOF was unable to implement controls over corporate cards due to the inherent nature of corporate cards. |
| Contact Person: | David Dlg. Atalig, Secretary of Finance |
| Corrective Action: | DOF agrees with this finding. DOF will inform agency heads periodically the process to obtain fuel cards. A memo has previously been issued to remind heads of agencies that all corporate cards must be approved by the Secretary of Finance, to ensure that operations operate efficiently with proper management |

| | |
|-------------------------|---|
| | of receipts from such fuel purchases. Moreover, updates to our procurement systems and processes is currently undergoing major review to ensure that fuel purchases and mechanisms are updated and controlled. In the near future, DOF plans to implement a P-card program that will allow DOF more control measures to directly account for expenditures in real-time and make more responsible individual agencies and cardholders. |
| Completion Time: | Ongoing |

| | |
|---------------------------|---|
| Finding: | DOF did not review 3 rd party billings for completeness and enforce provisions of the Fuel Contract. |
| Contact Person: | David Dlg. Atalig, Secretary of Finance |
| Corrective Action: | DOF agrees with this finding. DOF will inform agency heads periodically the process to obtain fuel cards. Additionally, discussions with the vendor will be ongoing for valid fuel card issuance to ensure that agencies are not circumventing DOF. Updates to our procurement systems and processes is currently undergoing major review to ensure that the fuel purchases and mechanisms are updated and controlled. In the near future, DOF plans to implement a P-card program that will allow DOF more control measures to directly account for expenditures in real-time and make more responsible individual agencies and cardholders. |
| Completion Time: | Ongoing |

As previously stated, the department of Finance is making efforts to improve expenditure controls to effectively manage accounts while still providing the support and flexibility for agencies to efficiently carry-out government and community services. The Division of Procurement is currently performing process improvement review and these concerns will be implemented in the system design, both in technology and process. The Division of Financial Services (formerly Division of Finance and Accounting) is strengthening its review of fuel payments to determine the gross misuse of the fuel purchase program and enforce policies.

Please contact me or Margaret Bertha Torres at 670-664-1100 if you have any questions or concerns.

Sincerely,



David Dlg. Atalig
Secretary of Finance

Appendix 5: Status of Recommendations

| No. | Recommendation | Status |
|-----|---|------------|
| 1 | Adopt, implement, and communicate policies and procedures (SOPs) for the issuance, renewal, and cancellation of fuel cards. | Unresolved |
| 2 | Maintain a listing of all fuel cards. | Unresolved |
| 3 | Replace all corporate cards with fleet cards until DOF develops and implements controls, including monitoring controls, over the government's use of corporate cards. | Unresolved |
| 4 | Develop procedures to (a) evaluate the Contractor's compliance with the Fuel Contract and for a proper review of billings; (b) monitor the effectiveness of controls; and (c) for the proper tagging and labeling of government gas containers. | Unresolved |
| 5 | Communicate provisions of the Fuel Contract and require agencies to adopt the above procedures. | Unresolved |



**Department of Finance
CNMI Government Fuel Contract
Report No. 20-02, January 2020**

CONSTITUTIONAL MANDATE

Article III, Section 12 of the CNMI Constitution and the Commonwealth Auditing Act (1 CMC, 2301, 7812 et. seq. of the Commonwealth Code) established the Office of the Public Auditor as an independent agency of the Commonwealth Government to audit the receipt, possession, and disbursement of public funds and to perform such other duties as required by law.

REPORTING FRAUD, WASTE, AND ABUSE

- Call the OPA HOTLINE at (670) 235-3937
- Visit our website and fill out our online form at www.opacnmi.com
- Contact the OPA Investigators at 322-3937/8/9
- OR visit our office on 1236 Yap Drive, Capitol Hill