




June 10, 2015

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department 

Subject: Review of Oversight Controls and Contract Compliance Related to Agreement No. C-3-1406 with Applied LNG Technologies, LLC

Overview

The Internal Audit Department has completed a review of oversight controls and contract compliance related to Agreement No. C-3-1406 with Applied LNG Technologies, LLC. The primary purpose of the review was to evaluate the adequacy of oversight controls and compliance with key requirements of Agreement No. C-3-1406. Based on the review, the Internal Audit Department has determined invoices are scrutinized for compliance with contracted rates and reflect proper authorization for payment; however, the vendor, Applied LNG Technologies, LLC, does not comply with all invoice requirements. Specifically, certified weighmaster tickets are not provided to support the amount of fuel delivered, and invoices do not include required certification statements.

Recommendation

Direct staff to implement one recommendation provided in the Review of Oversight Controls and Contract Compliance Related to Agreement No. C-3-1406 with Applied LNG Technologies, LLC, Internal Audit Report No. 15-507.

Background

Under Agreement No. C-3-1406 (Agreement) between the Orange County Transportation Authority (OCTA) and Applied LNG Technologies, LLC (ALT LLC), the vendor supplies liquefied natural gas (LNG) to OCTA's Anaheim and Garden Grove bus bases. The Agreement is for three years with three, one-year option terms and has a maximum obligation of \$16,212,500. As of April 22, 2015, the remaining balance was \$4,588,652.75.

LNG is delivered by truck to OCTA's Anaheim and Garden Grove bus bases. Prior to delivery, the transport vehicle is weighed at a scale to establish a gross weight. Once the fuel is delivered, the vehicle returns to the scale to be weighed again. The net difference between the two weight amounts establishes the amount of LNG fuel that was delivered and subsequently invoiced to OCTA.

OCTA is billed by ALT LLC based on the number of gallons delivered using a conversion factor of 3.55 pounds per gallon. The price per gallon of LNG is based on the Platt Index for Southern California, plus a fixed price margin and freight charge in accordance with the Agreement.

Discussion

The Agreement requires ALT LLC to provide certified weigh tickets documenting the pre and post-delivery weights of the delivery trucks to support the amount of fuel invoiced. Rather than providing certified weigh tickets, ALT LLC provides weigh tickets of non-certified scales that state, "THIS FORM IS NOT A CALIFORNIA WEIGHMASTER CERTIFICATE AND IS NOT LEGAL FOR TRADE IN THE STATE OF CALIFORNIA." According to the Division of Measurement Standards, under the California Department of Food and Agriculture, the scales used by ALT LLC are not appropriate for measuring the amount of LNG delivered. Further, invoices do not include vendor certification that the "...invoice is a true, complete, and correct statement of reimbursable costs" or that "...the backup information included with the invoice is true, complete, and correct in all material respects" as required by the Agreement.

Finally, during a June 2007 audit of the LNG contract, Internal Audit recommended that management implement a procedure for taking meter readings from the LNG tanks before and after delivery of fuel as a means of independently verifying amounts later billed. While the process was implemented at the time, as of this review, it is no longer being performed.

Internal Audit recommended that management develop and implement procedures to ensure invoice requirements are enforced and meter readings of LNG tanks are recorded before and after delivery of fuel for purposes of verifying amounts later billed. Management agreed and responded that invoice requirements will be enforced and meter readings taken, as recommended.

Summary

Internal Audit has completed a review of oversight controls and contract compliance related to the Agreement with ALT LLC, and is recommending management develop and implement procedures to ensure invoice requirements are enforced and meter readings of LNG tanks are recorded before and after delivery of fuel for purposes of verifying amounts later billed.

Attachment

- A. Review of Oversight Controls and Contract Compliance Related to Agreement No. C-3-1406 with Applied LNG Technologies, LLC, Internal Audit Report No. 15-507

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ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Review of Oversight Controls and Contract Compliance Related to Agreement No. C-3-1406 with Applied LNG Technologies, LLC

Internal Audit Report No. 15-507

April 28, 2015



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Conclusion

The Internal Audit Department (Internal Audit) has completed a review of oversight controls and contract compliance related to Agreement No. C-3-1406 (Agreement) with Applied LNG Technologies, LLC (ALT LLC). Based on the review, invoices are scrutinized for compliance with contracted rates and reflect proper authorization for payment; however, the vendor does not comply with all invoice requirements. Specifically, certified weighmaster tickets are not provided to support the amount of fuel delivered and invoices do not include required certifications.

Background

The Agreement was entered into June 1, 2013, between the Orange County Transportation Authority (OCTA) and ALT LLC. Under the Agreement, ALT LLC supplies liquefied natural gas (LNG) to the Anaheim and Garden Grove bus bases. The Agreement is for three years with three, one-year option terms and has a maximum obligation of \$16,212,500. As of April 22, 2015, the remaining balance was \$4,588,652.75.

LNG is delivered by truck each day. Prior to delivery, the truck is weighed at a truck scale to establish a gross weight (the weight of both the delivery truck and the LNG). Once the fuel is delivered, the truck will return to a scale to be weighed again. The net difference between the two weights is used to calculate the amount of LNG fuel that was delivered and, subsequently, the amount to be invoiced to OCTA.

OCTA is billed based on the number of gallons delivered using a conversion factor of 3.55 pounds per gallon. The price per gallon is based on the Platt Index for Southern California plus a fixed price margin and freight charge. Invoices are reviewed and approved by the Maintenance Department's senior business unit analyst.

Objectives, Scope and Methodology

The objective was to determine whether the vendor is compliant with key requirements of the Agreement as well as assessing related oversight controls.

The methodology consisted of documenting key requirements of the Agreement, observation of the LNG delivery process, and documentation of the invoice review process. Also, Internal Audit tested a sample of invoices for evidence of management review and authorization, compliance with contract requirements, accuracy, and proper recording.

The scope covered the period from January 1, 2014 to December 31, 2014.

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This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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Audit Comment, Recommendation, and Management Response

Invoice Requirements

The Agreement requires the LNG delivery vehicle be weighed at a certified scale to document the pre-delivery and post-delivery weights. These weights are then used to determine the amount of fuel delivered and the amount to be invoiced.

Review of invoices and supporting documentation found that ALT LLC does not obtain weights from certified scales but, instead, provides weigh tickets that state, "THIS FORM IS NOT A CALIFORNIA WEIGHMASTER CERTIFICATE AND IS NOT LEGAL FOR TRADE IN THE STATE OF CALIFORNIA."

According to the Division of Measurement Standards, under the California Department of Food and Agriculture, the scales used by ALT LLC are not appropriate for measuring the amount of LNG delivered to OCTA for the following reasons:

- The truck scales are not independently certified;
- The truck scales weigh each axle individually, whereas, a certified weighmaster scale weighs the entire transport vehicle on one scale; and
- The procedures used at a certified weighmaster scale are standardized to ensure accuracy and reliability.

Further, invoices do not include vendor certification that the "...invoice is a true, complete, and correct statement of reimbursable costs" or that "...the backup information included with the invoice is true, complete, and correct in all material respects" as required by the Agreement.

Finally, during a June 2007 audit of the LNG contract, Internal Audit recommended that management implement a procedure for taking meter readings from the LNG tanks before and after delivery of fuel as a means of independently verifying amounts later billed. While the process was implemented at the time, as of this review, it is no longer being performed.

Recommendation 1:

Internal Audit recommends that management develop and implement procedures to ensure invoice requirements are enforced and meter readings of LNG tanks are recorded before and after delivery of fuel for purposes of verifying amounts later billed.

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Management Response:

Management has reviewed the recommendation as well as the terms and conditions in Agreement No. C-3-1406. Management has determined that the contract does include the requirement that "The LNG fuel trailer transport vehicle shall be weighed at a certified scale prior to arriving with fuel for gross weight and re-weighed at the same scale for tare weight after unloading fuel". The contract also requires ALT LLC to provide proof that the fuel delivery truck is weighed at a certified weigh scale as part of their invoice. Furthermore, the agreement requires ALT LLC to include on their invoice certain certifications that the invoice reflects true and accurate information.

Because these requirements are included in the contract, the Contracts Administration and Materials Management Department (CAMM) sent ALT LLC a letter directing the firm to comply with the terms and conditions of the agreement.

CAMM also reviewed its procedures for managing LNG fuel deliveries. We found that there was not a specific requirement for staff to take meter readings before and after fuel deliveries. As a result, this process was not implemented on a consistent basis. CAMM has revised its LNG fuel procedures to include the before and after meter readings.

Review, approval, and payment of the LNG fuel invoices is conducted by the Transit Division. Transit staff will ensure that all invoices from ALT LLC include the required certification statements and are accompanied by certified weighmaster tickets.