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HAMILTON COUNTY, TENNESSEE

OFFICE OF THE COUNTY AUDITOR

To: Weston Wamp, County Mayor
Chip Baker, Chair - Hamilton County Commission
Hamilton County Commissioners

From: Chris McCollough, County Auditor

Date: July 25, 2023

Subject: Audit of Hamilton County's Fuel Card Program

BACKGROUND

Historically, all fuel used by county vehicles or equipment was obtained from eight (8) different Hamilton County fueling locations, with only four (4) of these locations available for use by all departments. Internal gas cards were issued to authorized employees giving them access to these tanks for county vehicles or equipment. These locations were not always convenient and caused extra mileage and gas usage when driving to the limited locations. In addition, there was potential for delayed law enforcement responses and emergency services when having to refuel.

As a result, in July 2018, Resolution No. 518-20 was approved between Hamilton County and Mansfield Oil Company of Gainesville, Inc. (Mansfield Oil) to provide the county with fuel cards to purchase petroleum products at retail locations that accept 'Voyager Network Cards'. The Hamilton County Procurement Department established guidelines and procedures for issuing, using, and monitoring the 'Fuel Card Program' and began utilizing the fuel service in March 2019. This program allowed Hamilton County employees to make authorized fuel purchases at convenience stores for county-owned or leased vehicles and equipment used for official county business.

An employee can only use their fuel card in combination with a valid 'Personal Identification Number' (PIN), which is assigned to each authorized user. Each user must complete training and sign a 'User Agreement Form' to receive a PIN.

To control purchases and eliminate potential abuse of cards, the fuel cards are subject to certain transaction parameters. These parameters trigger an 'Exception Report', which should be reviewed by the assigned fuel card coordinators. These exceptions are listed below:

- Fuelings per day
- Gallons per day
- Off hours
- Exceed tank capacity
- Miles Per Gallon error
- Odometer discrepancies
- Multiple fuelings
- High Grade fuel purchases
- Out of State
- Duplicate charges

Default limits are set at \$1,000 per month with the following maximum transactions per day:

Vehicles:	Three (3) transactions per day
Small Equipment:	Ten (10) transactions per day
Large Equipment:	Three (3) transactions per day

The following represents a summary of the use of the county's fuel cards during the period March 2021 through December 2022:

No. of PINs issued to employees at December 31, 2022	988
Vehicles	844
Small Equipment	8
No. of fuel card transactions	66,323
Mar 2021 - Dec 2021 fuel card expenditures	\$ 985,448
Jan 2022 - Dec 2022 fuel card expenditures	1,648,009
Total	\$ 2,633,456

AUDIT OBJECTIVES

The objectives of the fuel card program tests were to:

- verify whether policies are in practice to provide reasonable assurance that county fuel card purchases are consistently monitored for unauthorized activity, and safeguards are in place to restrict usage to employees who meet the guidelines of an authorized user per fuel card policy;
- determine that fuel card transactions meet the allowable criteria under the current policy;
- verify that fuel charges are proper and adequately identified and recorded in the county's financial records; and
- determine whether there is any waste, fraud, and/or abuse in the usage of the fuel card program.

AUDIT SCOPE

The scope of our audit includes fuel card activity during the period March 2021 through December 2022.

AUDIT PROCEDURES

Our audit procedures covered the period of March 2021 to December 2022 and included the following:

- meeting with key personnel to discuss their role in the program;
- review of fuel card policies and procedures;
- review of the fuel card user training manual;
- review of the county's contract with Mansfield Oil;
- review of internal controls and procurement department procedures for the issuance of vehicle fuel cards and approved county employee PINs; and
- tests of detail transactions of fuel charges to verify that:
 - a) the employee and vehicle were authorized for use by management;
 - b) the amount of gallons purchased for the vehicle did not exceed the capacity of the vehicle;
 - c) the type of fuel purchased was the recommended product required by the vehicle manufacturer;

- d) fuel policies were followed by employees, including types of transactions made and follow-up on exceptions reported; and
- e) fuel transactions were properly approved and recorded in the county's general ledger accounting system.

AUDITORS' OPINION

In our opinion, the Hamilton County's Fuel Card program appears to be accomplishing its primary objectives of:

- 1) supplementing county owned fuel tanks by providing a more efficient method for purchasing fuel across Hamilton County and throughout the state,
- 2) providing more cost effective fuel access for law enforcement and emergency services vehicles/equipment, and
- 3) potential elimination of a portion of county owned fuel storage tanks

However, our assessment disclosed certain conditions that we feel are weaknesses in internal controls and/or operating procedures for which corrective action should be taken. Our audit noted recommendations for improvements to the county's 'Fuel Card Program', with management's responses to our findings included at **Appendix I** on page 5 of this report.

The audit recommendations were reviewed with the Finance Administrator and Director of Procurement, and we are willing to assist in implementing any corrective action. We request to be notified when each recommendation has been implemented.

We appreciate the help of Rhonda Waters, procurement department, for assisting us during our audit. If there are any questions regarding this report, please call me at 209-6212.


Chris McCollough, County Auditor

Staff Assigned to Audit
Austin Durall, Senior Auditor

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Lee Brouner, Administrator of Finance
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Jerald Carpenter, Director of Procurement & Fleet Management
Rhonda Waters, Fuel Card Administrator

**FUEL CARD PROGRAM
Management Response to Audit Findings**

TAX-EXEMPT RATE (STATE OF TENNESSEE) - REPEAT FINDING

Observation #1 – During our audit, we noted that Mansfield Oil Company used incorrect Tennessee tax-exempt rates during the audit period, for both gasoline and diesel tax. According to the Tennessee Department of Revenue, motor fuel taxes after July 1, 2019 were \$.26 per gallon for gasoline and \$.27 per gallon for diesel. Additionally, there is a \$.014 per gallon special tax added to the purchase at the point of sale. The incorrect calculation will result in an amount due from Hamilton County. Once Mansfield reviews this issue, they will bill the county for the balance. The billing will be reviewed and recalculated to verify its accuracy.

Recommendation #1 – The accounting department or procurement department must review invoices from Mansfield Oil to ensure that correct tax-exempt rates are credited on the invoice before payment.

Management Response – According to our fuel card policies, this role should be someone in the accounting department but was never assigned. Since we are changing from Mansfield to WEX for our fuel card vendor effective July 1, 2023, this role has been assigned to an accountant who will begin reviewing these invoices.

Observation #2 – During our audit, we noted several out-of-state fuel purchases from employees commuting in take-home vehicles to/from their homes. Purchases made outside of the State of Tennessee are not exempt from state sales tax. Fuel purchases must be made in the State of Tennessee to take advantage of the fuel tax exemption.

Recommendation #2 – All employees should be required to purchase fuel in the State of Tennessee unless traveling out-of-state on county business.

Management Response – Currently, all active drivers sign the update form created by audit stating that drivers will not purchase fuel outside the State of TN unless traveling for business or other legitimate reasons. Fuel card policies will be updated to reflect this as well. All of these occurrences had a legitimate explanation when followed up on with the fuel card coordinator and employee. Our recommendation is to use an exception report from the WEX system to be reviewed by procurement staff and the fuel card coordinators.

AUTHORIZED ACTIVE FUEL CARD USERS - REPEAT FINDING

Observation – A list of authorized, active fuel card users was provided during the audit to test for proper training and employee status. Out of the fifteen (15) employees randomly selected, two (2) terminated employees were listed as active card users.

Recommendation – No transactions were made after each employee left the county. According to policy, coordinators should contact the administrator to remove terminated employees and deactivate their PINs. Also, a termination report from HR or the payroll department should be provided every two weeks to ensure that terminated employees are removed from the list and PINs deactivated. This occurred in the last audit period as well, and the issue appears to be due to Mansfield not accurately updating/reporting the FuelNet system.

Management Response – This issue is one of the reasons for the change from Mansfield to WEX. While Mansfield had not deactivated the employees, the employee PIN was deactivated which prevented unauthorized use. When we change to WEX fuel cards effective July 1, 2023, procurement staff will be able to deactivate employees in real time which should prevent this issue going forward.

MONTHLY INVOICE APPROVALS - REPEAT FINDING

Observation – The fuel card administrator receives a file from Mansfield Oil with the monthly fuel charges, and imports this file into fuel billing software created by the Hamilton County IT Department. After importing the file, at least three emails are sent to the administrator/director of each department requesting review and approval of fuel charges. If there is no response, the fuel card administrator must go ahead and approve the invoice in fuel billing, but an email is subsequently sent to the administrator/director letting them know approval has been made.

Recommendation – Update the fuel card policy and procedures to include the monthly invoice approval steps.

Management Response – Fuel card policy, section 6.3 #4 covers the steps for approval. The email contains a link to the invoice that also instructs to review and approve or reject. We will add to this section language stating, if the invoice is not approved after notice or in a reasonable amount of time, the fuel card administrator will approve the invoice.

INACCURATE MILEAGE WHEN PURCHASING FUEL - REPEAT FINDING

Observation – When purchasing fuel, the employee must enter their PIN and enter the vehicle's odometer reading. Our test work of twenty-five (25) vehicles revealed sixteen (16) cars had inconsistent mileage.

If a fraudulent transaction occurs, the person involved would not have access to the company vehicle's odometer reading. Because of this, the odometer entered will not be in line with the previous odometer entry. If the odometer entered is lower, then no MPG can be computed and you will see an error on the report. If the odometer entered is higher, then the MPG will be higher than expected. In either case, it should be obvious something is wrong on the MPG reports.

Alternatively, an employee could purchase fuel for both an “authorized” company vehicle and an “unauthorized” personal vehicle in a single transaction. In this case, the odometer

entry would be sequential, however, the MPG would decrease significantly and should trigger an exception report.

Recommendation – The policies and procedures guide should require inconsistencies to be noted by the coordinators. There are exception reports in the ‘Fuel Card Program’ that monitor inconsistent odometer readings and MPG. Fuel card coordinators should review these reports and question employees regarding any inconsistencies and note their response.

Management Response – In most cases, fuel card coordinators are catching these exceptions and sending notification to the fuel card administrator, however, we will make an addition to training policy that fuel card coordinators should copy the driver/user in the email.

EXCEEDING VEHICLE FUEL CAPACITY – REPEAT FINDING

Observation – Internal audit researched the vehicle's fuel capacity and compared it to gallons purchased. There was one (1) transaction in our sample where gallons of fuel purchased exceeded the vehicle's capacity.

Recommendation – This information is included in the exceptions report and must be followed up with the applicable fuel card coordinator and driver.

Management Response – We have found instances where Mansfield failed to put the vehicle fuel tank capacity in their system as a control. During our transition to WEX, we are ensuring that the fuel tank capacity is entered for all vehicles. We found there are some instances where an employee has a fuel container in the vehicle for other equipment such as a lawn mower which would result in the purchase of fuel in excess of the vehicle capacity. We are now issuing separate cards for the equipment.

FUEL GRADE POLICY - REPEAT FINDING

Observation – Per the Hamilton County ‘Fuel Card Policy’, only 87 octane and diesel grades are authorized for fuel purchases (unless the manufacturer specifies other grades).

During our audit, we noted that several employees were using higher fuel grades for vehicles not requiring mid or premium grade fuel. The fuel card coordinator should be aware of these purchases via the exception report. They should comment if 87 octane was unavailable and remind the driver that only 87 octane fuel is authorized for purchase.

Recommendation – All drivers should be informed that only 87 octane and diesel purchases are allowed, with the exception that 87 octane is not available. Fuel card coordinators must review exception reports and explain any discrepancies.

Management Response – Our fuel card software system identifies all purchases of mid or premium grade fuel and lists them on a monthly exceptions report. The fuel card coordinators are instructed to review this exception report and investigate the purchases of mid or premium grade fuel and either verify that use of the higher grade fuel is warranted or remind

cardholders to discontinue the use of the higher grade fuel. We will continue to monitor these transactions to eliminate any unnecessary purchases of the higher grade fuel in the future.

CARD SHARING - REPEAT FINDING

Observation – Section 4.6 of the fuel card policy has examples of prohibited practices. One prohibited practice is, "Using the fuel card for a vehicle other than that to which it is assigned." There were several card sharing violations involving a sheriff's office employee who also had violations in the prior audit period. The last violation occurred in October 2021.

Recommendation – The department coordinator needs to be notified and address the violation directly with the employee. Also, we recommend a reminder email explaining prohibited fuel card practices be sent to all employees with a PIN.

Management Response – In September 2022, this was addressed with the individual. No other instances have occurred.

FUEL CARD POLICIES AND PROCEDURES - REPEAT FINDING

Observation – During our audit, we relied on the current policies and procedures, but it was noted that a couple of sections of the document were not updated. The following areas need to be updated:

Section 5.1 – Fuel Card Transaction Limits – exception for sheriff and EMS
Section 6.6 – A fuel card accountant should be designated

Recommendation – Policies and procedures should be reviewed and updated as stated above to reflect any changes or improvements. For proper segregation of duties, we recommend that the fuel card accountant obtain approvals from departments and upload charges into CentralSquare for recording and payment of invoices.

Management Response – Section 5.1: These limits are default limits. Section 5. 5.1 states that "these default limits will be periodically reviewed for divisions/departments and updated as necessary by vehicle or groups of vehicles." So that we can accommodate other departments, when needed, such as highway in time of disaster or emergency, we agree to add the following language: Due to the nature of services within sheriff and EMS departments, default limits will not apply. Transaction limits may be changed for other departments as necessary, at the discretion of administrator/director. We will update this language by July 31, 2023.

Section 6.6: We will work with accounting on this decision.