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## HAMILTON COUNTY, TENNESSEE

### OFFICE OF THE COUNTY AUDITOR

To: Weston Wamp, County Mayor  
Hamilton County Commissioners  
Audit Committee

From: Chris McCollough, County Auditor

Date: October 31, 2024

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 this 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 county transitioned from Mansfield Oil Company to Wex Inc. in July 2023. 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.

Employees can only use their fuel card 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.

The fuel cards are subject to certain transaction parameters to control purchases and eliminate potential abuse of cards. 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's 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 July 2023 through December 2023:

No. of PINs issued to employees at December 31, 2023	<u>1,179</u>
Vehicles	<u>857</u>
Small Equipment	<u>22</u>
No. of fuel card transactions	<u>22,723</u>
July 2023 - Dec 2023 fuel card expenditures	\$ 932,567.33

## **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 July 2023 through December 2023.

## **AUDIT PROCEDURES**

Our audit procedures covered the period of July 2023 to December 2023 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 Wex Inc;
- 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' FINDINGS**

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 we feel are weaknesses in internal controls and/or operating procedures for which corrective action should be taken.

### **AUTHORIZED ACTIVE FUEL CARD USERS - REPEAT FINDING**

**Observation** – During the audit, a list of authorized active fuel card users was provided to test for proper training and employee status. Out of the fifteen (15) employees randomly selected, three (3) terminated employees were listed as active card users. The sample was expanded to test the entire active user listing, which revealed fifty-seven (57) individuals still on the listing who were no longer employed with Hamilton County. There were no transactions made after each employee left the county.

**Recommendation** – 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 monthly to ensure that terminated employees are removed from the list and PINs deactivated.

**Management Response** – Procurement generates the Termination Report daily. When these are received, the driver is promptly deactivated in Wex. Notification is scanned into our shared file. All drivers have been deactivated in Wex & have been verified they are no longer county employees.

## **DISALLOWED PURCHASES**

**Observation** – Per section 4.4 of the Fuel Card Policies and Procedures Guide, fuel cards are only authorized to purchase fuel for county-owned or leased vehicles and equipment for county business purposes. There were two (2) employees who purchased car washes using a county fuel card. One was in the trustee's office and the other employee was in 911 emergency communications. In addition, a sheriff's office employee used a fuel card to purchase a beverage at a gas station. Procurement was notified of these violations and is following up with their coordinators.

**Recommendation** – Procurement needs to send all fuel card users and coordinators an email reminding them that using fuel cards to make these purchases is prohibited. Going forward, county employees that use fuel cards to make these purchases should receive a written warning for the violation, which they must sign. The signed warning should be kept with the fuel card administrator and filed with HR.

**Management Response** – Instances like these moving forward will be included in the Fuel Card Coordinator training. A multi-faced approach will be used in response to each finding going forward. One of the employees did reimburse the county for his purchase of a car wash. Moving forward, to reduce these type instances, all Fuel Card Coordinators will be trained to run Exception Reports to monitor these type of miscellaneous purchases as well as incorrect fuel being purchased. In addition, employees who make prohibited purchases with their fuel card will receive a written warning that they must sign. The warning will be filed with HR and the fuel card administrator.

## **FUEL TYPE 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 employees using higher fuel grades for vehicles not requiring mid or premium-grade fuel. The audit sample was expanded to include all fuel transactions that were higher fuel grade purchases. Procurement reviewed these transactions and discovered that a large portion of the purchases involved certain gas stations reading unleaded fuel as unleaded super in error. However, there were still a significant amount of transactions where fuel card users purchased a higher fuel grade than authorized by policy.

**Recommendation** – All drivers should be informed that only 87 octane and diesel purchases are allowed, with the exception that 87 octane is not available or the vehicle requires a higher fuel grade. Fuel card coordinators must review exception reports and explain any discrepancies. Fuel card users must communicate by email both with their coordinator and the fuel card administrator as to why they purchased a higher grade of fuel. Employees who use a fuel card to make purchases of higher grade fuel without a justified explanation should receive a written warning for the violation, which they must sign. The signed warning must be kept with the fuel card administrator and filed with HR.

**Management Response** – The majority of purchases made from June 28, 2023 through November 4, 2023 from Murphy USA 5716 Highway 153 Hixson, TN were giving incorrect readings of

Unleaded Super. The fuel was Unleaded Regular. We have documentation showing these dates. Similar issues have occurred at other locations, where the correct grade was purchased but station reportings were incorrect. A multi-faceted approach is in place to use in response for these findings moving forward as well as training for each department's fuel card coordinator. The previous administrator did not give proper training with the new fueling system. Each fuel card coordinator will be trained on how to run exception reports to track incorrect fuel purchases & will notify fuel coordinators to be sure each employee receives formal documentation of the violation, which they and their director will be required to sign. A significant number of the occurrences found in the audit were reporting errors on the part of the stations, rather than violations on the part of the employees, but several were actual violations. Moving forward, we have submitted information to Auditing and will continue to do so when a vehicle is required to use a higher grade of fuel. Additionally, employees who make prohibited purchases with their fuel card will receive a written warning that they must sign. The warning will be filed with HR and the fuel card administrator.

### **OUT-OF-STATE PURCHASES - REPEAT FINDING**

**Observation** – Per section 4.5 of the Fuel Card Policies and Procedures Guide, purchasing fuel outside of the state of Tennessee is prohibited unless traveling for official county business. This includes employees living outside the state with take-home vehicles. When out-of-state fuel purchases are made, the county does not benefit from the exempted State of Tennessee fuel tax. Due to the nature of some county functions, out-of-state purchases may need to be made. Most out-of-state transactions during the audit period were business trips or departments that make out-of-state trips regularly. A few other departments made out-of-state purchases and had no documentation on the nature of the trip.

**Recommendation** – This does not appear to be a widespread issue. However, the policy on out-of-state purchases for travel should be updated to state that fuel card users must notify their fuel card coordinator on the nature of the out-of-state purchase. Employees who make out-of-state purchases that are not for official county business must receive a written warning for the violation that they must sign. The written warning must be kept with the fuel card administrator and filed with HR.

**Management Response** – A multi-faceted approach is in place to use in response for these findings moving forward as well as proper training for each department's Fuel Card Coordinator. Proper training will be conducted for each Fuel Card Coordinator to receive proper documentation of when out-of-state purchases will be made, such as travel dates & travel locations. This information will be sent to the Fuel Card Administrative to properly document & keep on record. Going forward, employees who make out-of-state fuel purchases that are not traveling outside the local area on official business should receive a written warning that they must sign. The warning will be filed with HR and the fuel card administrator.

### **MISSING DOCUMENTATION**

**Observation** – During our audit, we tested fifteen (15) fuel card users to verify that they had completed the appropriate forms to use county fuel cards. Out of the fifteen (15) employees tested, nine (9) authorized card users had missing documentation. Procurement must maintain

the appropriate records showing that authorized card users have met the requirements and agreed to the terms of the program.

**Recommendation** – Procurement must notify all fuel card users to complete an updated Personal Identification Form, Fuel Card & Pin Agreement Form, and the User Training Form. These forms should be kept with the fuel card administrator. Fuel card users must complete these forms within six months of the issuance date of the final audit report.

**Management Response** – The previous administrator did not give drivers the proper documentation with the transition from Mansfield to Wex. Therefore, not all drivers had a current or proper documentation as their fuel PIN numbers transferred from the old company to the new one. We are working on having each driver prior to November 1, 2023 to fill out new forms and will ensure all new drivers going forward complete all required documentation. We will ensure that fuel card users complete these forms within six months of the issuance date of the final audit report.

### **INACCURATE MILEAGE WHEN PURCHASING FUEL - REPEAT FINDING**

**Observation** – Employees are required to enter their PIN and the vehicle's odometer reading when purchasing fuel. Our test work of sixty-two (62) vehicles revealed that two (2) cars had inconsistent mileage. One of the violations was EMS, and the other was in the juvenile court judge's office.

**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. If the errors continue without a valid explanation, the employee must receive a written violation that they must sign. The written warning must be kept with the fuel card administrator and filed with HR.

**Management Response** – A multi-faceted approach is in place to use in response for these findings moving forward as well as proper training for each department's Fuel Card Coordinator. The previous administrator did not provide proper training with the new fueling system. Each Fuel Card Coordinator will be trained on how to run exception reports to track incorrect fuel purchases as well as inconsistent odometer readings. They will notify the Fuel Card Administrator to be sure each employee receives a formal documentation of the violations they may have incurred. The formal documentation will be signed by the employee as well as their Director and will be kept on file with the Fuel Card Administrator and also filed with HR.

We appreciate the help of Shanele Collins, procurement department, who assisted us during our audit. If there are any questions regarding this report, please call Austin Durall, Audit Manager, at 209-6211 or me at 209-6212.

*Chris McCollough*

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Chris McCollough, County Auditor

Staff Assigned to Audit

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