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February 14, 2024

City of Fort Smith Board of Directors
SUBJECT: Fuel Audit – Utilities Fuel Audit

Board of Directors:

A planned 2023 City fuel audit was conducted and the objective of the fuel audit was to evaluate whether City policies and procedures were adhered to during the purchasing process, refueling process and that there are proper internal controls in place to mitigate risk to theft of fuel.

Background

The City of Fort Smith supplies fuel to all City Departments who have vehicles, equipment, specialized equipment (i.e. Forklifts, off-road equipment, etc.) and for heating (i.e. buildings and water). The City utilizes unleaded, diesel, compressed natural gas (CNG) and propane. There are three fueling locations, Sanitation, Kelley Hwy, and Transit.

All fueling locations have unleaded and diesel, two fueling locations have CNG capabilities and one department utilizes propane. There are departments that use propane tanks for equipment and at water/sewer plants, however they are not refilled in large quantities and there is not a propane contract.

The City has approximately 674 vehicles and approximately 233 equipment assets that will refuel at one of the locations or if outside of the City limits will use their P-card to purchase fuel. The fuel purchased on the P-card is coded to 528500, however a department could also code the purchase to other account codes such as travel and/or conferences. We did note that two departments have fuel cards for their fleet and separate memos were written for the review of the fuel card purchases.

During the fiscal year (FY) 2022, The City purchased from the fuel vendor approximately 684,384 gallon, totaling \$2,541,234. From January 1, 2023 through August 7, 2023 the City purchased from the fuel vendor approximately 433,395 gallons, totaling \$1,255,265. Unleaded and diesel are tracked through the fuel system FuelMaster. The fuel card purchases for FY 2022 was approximately \$133,000 and from January 1 through October 24, 2023 was approximately \$206,764.

The fuel pumps at Sanitation were installed in 2012 and the cameras are not reviewed periodically. Yearly inspections are performed, however since the City does not sell gas to any outside customers, the pumps are not calibrated. Employees can access fuel by using vehicle fuel keys called Prokee. The P-cards are used to fuel City vehicles and equipment when traveling out of City limits, the fueling station is inoperable, and to refuel rental cars. The usage of the p-card is also inherently risky without adequate accountability and control.

A report was written for each fueling location and two additional reports were deemed necessary because of the two departments utilizing fuel cards through a separate vendor. Discrepancies were identified and recommendations were provided in those two reports.

Methodology

To accomplish our audit objectives, we interviewed key personnel, reviewed applicable City and State compliance requirements, reviewed written policies and procedures, tested a random sample of fuel orders and payments, and reviewed monthly journal entries. The risk of fraud, waste, and abuse was also considered.

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 upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Objectives and Scope

The audit objective was to determine if the fueling stations and departments have adequate controls over fuel services. The scope of the audit focused on compliance with fuel requirements, fuel purchases, fuel deliveries, safety, and inventory control. The audit period covered activities for the fiscal year 2022 and January 1, 2023 through August 7, 2023. Due to the amounts identified from the audit period covered, IA reviewed the remaining invoices for 2023 and January 2024. This information was added to the total and identified below in the first finding.

Findings and Recommendations

The City of Fort Smith's (City) Internal Audit Department (IA) determined after reviewing the current FuelMaster fueling system to provide high-level suggestions on ways to improve the internal controls surrounding the fueling stations and fueling systems and FuelMaster at the Utilities Department Kelly Highway, Sanitation and Transit locations. These items were designed to provide basic recommendations to the department to consider in improving the use and control over the fueling stations. Based on this assessment, it is likely that a follow-up procedure will be scheduled when the three locations are connected together on the cloud base system for the fueling systems and procedures. Fuel is a near-cash asset which is highly susceptible to potential misuse. Combined with the high volume of usage and cost, fueling stations are important to the control of fuel usage and storage throughout the City. The following recommendations pertain to this assessment:

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- Invoices received by Frost were not reviewed for correct charges. IA noted that the invoices contained the incorrect charges and that credits were not properly added to the invoices. Furthermore, we noted the unleaded was assessed the diesel differential fee and the diesel assessed the unleaded differential fee. Therefore, the departments are assessed the incorrect amounts for their fuel purchases. Moreover, IA identified **\$78,741** that was overcharged to the City by the fuel vendor for all three fueling locations. (Note: the total amount is based off the incorrect billing from January 2022 through January 2024)

Recommendation: All invoices should be reviewed for the correct and allowable charges and the City receives the correct credits. The invoices should be verified with the delivery ticket to ensure the correct amount was charged for that specific delivery. Additionally, the invoices should be signed and dated by the reviewer before the requisition is entered into the system to document the reconciliation. Lastly, all fuel contracts should be provided to the fueling locations to allow for them to ensure the correct prices are charged on the invoices.

Management Response:

Staff responsible for the Kelley Hwy fuel station has asked for a copy of the current fuel contract. Staff will be properly trained on the how to review the invoice and check for discrepancies between the delivery ticket and the invoice.

It is management's understanding from e-mails received from Internal Audit, the \$73,880 was actually only at the Solid Waste fueling facility.

Responsible: Jessamy Marr (Lance A. McAvoy)

Implementation Date: On or before March 1, 2024

Assessment of Managements Responses:

A copy was provided by email to the Deputy Director in January 2024 and a physical copy was provided to the Manager. Additionally, if a copy of the contract was needed, the department should reach out to the Purchasing Manager who is over the fueling process. The amount due from Frost has increased, however, the email sent to the Utility Director and Manager stated that a majority was due back to sanitation, not that it was only at sanitations fueling location. There are credit amounts due to Transit and Kelley Hwy fueling locations.

- Kelley Hwy. does not have written procedures for the use of fuel, tracking of fuel, issuing of keys, and fuel safety protocols.

Recommendation: Each fueling location should develop written procedures for use of fuel, tracking of fuel, issuing of keys, types of keys, and purchasing of the City's fuel sources including any use of the fueling systems. Additionally, safety protocols should be developed that includes the location of wash bins and materials to aid the employee in fuel spills.

Management Response:

Standard Operating Procedures (SOPs) are being developed to cover the tracking of fuel keys at the Kelley Hwy facility, and how to issue fuel keys. Ordering of fuels follows the City's procurement protocols and utilizes contracts procured by the Purchasing Department.

Water Utilities has both annual training as well as new hire/transfer training on proper use of the fueling system and fuel safety. This includes the location of the emergency shut off button and fuel spill mitigation, which are clearly marked.

Training for everyone who uses the fueling stations should be covered by their department, or included in annual training by the Human Resource Department.

Responsible: SOPs Jessamy Marr (Lance A. McAvoy)

Water Utilities Safety Training completed prior to Audit

City wide safety training by either individual departments or HR

Implementation Date: SOPs on or before July 1, 2024

Assessment of Managements Responses:

IA agrees with the SOP implementation date. However, it should be the responsibility of the Kelley Hwy fueling location to proactively work with HR regarding safety and fuel protocol training. It is not just the responsibility of HR. IA inquired about safety training and at no time was it stated annual training was provided or provided documentation of those employees who received safety and fuel protocol training. Additionally, when IA asked what the procedure would be if fuel was spilled on a person it was said that kitty litter would be used, no other procedures were discussed. Lastly, IA asked multiple employees at Kelley Hwy and they stated they do not recall ever having received any type of fuel or safety training. While emergency shut off button and fuel spill mitigation might be clearly marked, it does not indicate that an employee would know what steps they should take to rectify the situation. IA took pictures of the fuel pumps and area, there were no spill kits next to the fuel pump area.

- Fuel was charged to departments that did not have that assigned asset, the asset had been transferred to another department, auctioned, and/or the asset was no longer in use.

Recommendation: All departments should review the transactional detail of their activity within the fueling process. Any discrepancies should be reported immediately to the fuel location to be corrected. Additionally, departments should consider using a dual authentication method for each fueling transaction including a key for the vehicle, equipment, or tank as well as a badge swipe or employee pin for the individual employee performing the fueling.

Management Response:

Monthly fuel reports are submitted to all departments for their review and evaluation of which assets are being filled based on the fuel key used. It is up to the individual department to review all associated fuel/asset purchases charged to their department.

The departments must communicate with the Kelley Hwy Facility all asset changes as soon as possible. After a discussion with ITS to review the amount of work associated with dual authentication and noting the Kelley Hwy facility is a controlled secured site, dual authentication will not be utilized at this time.

Responsible: Reports already generated and distributed by Water Utilities: Other Departments will need to review the report supplied and communicate asset changes

Implementation Date: Completed Prior to Audit

Assessment of Managements Responses:

IA does recognize the response; however, it should be a collaborative effort between the fueling location and the departments. Kelley Hwy should be proactive and periodically verify with the departments regarding their fuel keys and not solely rely upon the departments. Additionally, while the Kelley Hwy facility may have a fence, it is not secured, left open throughout the day, and the cameras do not work at the fuel pumps. Dual authentication is not a difficult process. The Syntech system for the pumps have badge swipe capabilities as well being able to enter a pin number. This will assist with any questionable fueling, especially since the cameras do not work. Transit uses dual authentication which identifies directly who is fueling the asset. Lastly, an asset list should be sent to all the departments by the end of the year and have the department reconcile those assets. Any discrepancies should be communicated to the fueling department to assist with correcting the discrepancies.

- Fuel keys were still active for assets that were no longer in use and/or lost.

Recommendation: Departments should perform periodic, surprise reviews of the keys. Any discrepancies should be reported immediately to the fuel location to be corrected.

Management Response:

The Kelley Hwy facility supplies monthly reports that may be used to indicate issues and journal entries may be used to correct said issues. Departments may request which fuel keys and assets are assigned to that department for them to run and audit.

Responsible: Reports already generated and distributed by Water Utilities: Other Departments will need to review the report supplied, request the key/asset list to run their own audit, or communicate asset changes

Implementation Date: Completed Prior to Audit

Assessment of Managements Responses:

IA does not agree with managements responses. This should be a collaborative effort between the departments and the fueling location. The fueling location should perform random reconciliations of the ProKees with the departments to quickly eliminate any ProKees that have not been reported as lost or stolen. Lastly, an asset list with ProKee information should be sent to all the departments by the end of the year and have the department reconcile those assets. Any discrepancies should be communicated to the fueling department to assist with correcting the discrepancies

- Miscellaneous fuel key(s) were used to fuel vehicles. Miscellaneous keys are for equipment and have a set gallon limit.

Recommendation: Departments should eliminate all but absolutely necessary “Miscellaneous Fuel Keys” in order to provide more uniformity and transparency in fuel usage and reporting. Proper protocols should be implemented to ensure miscellaneous fuel keys are used according to policy. The miscellaneous fuel keys are to be used to fill small containers, small equipment, etc. which have a fuel limit and be utilized for that purpose. Additionally, departments should consider using a dual authentication method for each fueling transaction including a key for the vehicle, equipment, or tank as well as a badge swipe or employee pin for the individual employee performing the fueling.

Management Response:

For the Kelley Hwy Facility, “Miscellaneous Fuel Keys” will only be issued to department supervisors after a written request. The fuel key may have a fuel limit added to the account that limits the volume and number of times the key may be used in a set period. This process will be documented with the generation of the SOP associated with issuance of fuel keys.

Cameras and an upgraded security and surveillance suite will be in place by the end of 2024. The Kelley Hwy facility is a fenced, controlled location. Dual authentication will not be adopted by the Kelley Hwy facility as Kelley Hwy facility supplies monthly reports that may be used to indicate issues and journal entries may be used to correct said issues. Departments may request which fuel keys and assets are assigned to that department for them to run and audit.

Responsible: Jessamy Marr (Lance A. McAvoy) for Miscellaneous Fuel Keys SOP
Camera project is being run by ITS

Implementation Date: SOPs on or before July 1, 2024
Camera project by end of 2024

Assessment of Managements Responses:

IA does recognize that the Kelley Hwy fueling location will document the miscellaneous protocols in their SOP’s, however IA’s understanding of the process is that the miscellaneous keys are to be used for small equipment assets (i.e. gas cans, lawnmowers, weed eaters, etc.) and have a small gallon limit and not as management states “may have a fuel limit added to the account and number of times the key may be used in a set period”. This process should be a collaborative effort with the departments and not pushing full responsibility onto the departments, especially since the fueling location is the “gate keeper” of the fuel, ProKees, providing the fueling information to the departments, etc.

Additionally, while the Kelley Hwy facility may have a fence, it is not secured, left open throughout the day, and the cameras do not work at the fuel pumps. Dual authentication is not a difficult process. The Syntech system for the pumps have badge swipe capabilities as well being able to enter a pin number. This will assist with any questionable fueling, especially since the cameras do not work. Transit uses dual authentication which identifies directly who is fueling the asset.

- The cameras are not operable and have not been operable for several years. This allows for fuel theft for non-vehicle fueling, determine a way to track and identify transactions to those items – bed tanks, small equipment, etc.

Recommendation: All cameras should be operable and periodically reviewed for safety and theft of fuel.

Management Response:

The cameras for the Kelley Hwy fueling facility will be installed this year as part of the overall security upgrade being performed by ITS at the Kelley Hwy facility.

Responsible: Project is being run by ITS

Implementation Date: By end of 2024

Assessment of Managements Responses:

IA agrees with managements responses. IA would like to express this is another reason to add dual authentication for fueling. Fueling discrepancies can be immediately identified since the cameras are not operable and the location is not completely secured.

- Kelley Hwy does not have locks and or anti-siphon devices on underground or above ground fuel storage tanks.

Recommendation: These two locations should consider installing locks and anti-siphon devices to all underground or aboveground fuel storage tanks. This will also assist with theft of fuel.

Management Response:

Kelley Hwy have purchased locks for the UST caps. The keys will be assigned to only appropriate staff and will be maintained in a secure location and manner. This facility is manned 24/7 and has fencing around the facility to prevent theft.

There are no ASTs at the Kelley Hwy facility so this finding is not valid and anti-siphon devices are not needed.

Responsible: Jessamy Marr (Lance A. McAvoy)

Implementation Date: February 16, 2024

Assessment of Managements Responses:

IA acknowledges the purchase of the locks for the caps. However, while the Kelley Hwy facility may have a fence, it is not secured, left open throughout the day, and the cameras do not work at the fuel pumps.

- Kelley Hwy does not sign off on the delivery ticket and they are not reconciled to the invoice when received by fuel vendor. Additionally, Kelley Hwy does not ensure the rack rate is notated on the delivery ticket.

Recommendation: All fueling location should formally reconcile all signed deliveries tickets to the invoices to determine if the quantities delivered were accurately charged. To ensure the City is charged the correct rate, the rack rate should be notated on the delivery ticket.

Management Response:

Staff responsible for the Kelley Hwy fuel station has asked for a copy of the current fuel contract. Staff will be properly trained on the how to review the invoice and check for discrepancies between the delivery ticket and the invoice.

The Logistics Supervisor has been trained to receive fuel shipments and act as a back-up for the Fleet staff who normally would sign for the shipments.

Responsible: Jessamy Marr (Lance A. McAvoy)

Implementation Date: On or before March 1, 2024

Assessment of Managements Responses:

A copy was provided by email to the Deputy Director in January 2024 and a physical copy was provided to the Manager. Additionally, if a copy of the contract was needed, the department should reach out to the Purchasing Manager who is over the fueling process. It is the responsibility of the departments to obtain contracts so when an invoice is received, the employee can properly reconcile and ensure charges are accurately billed on the invoice.

Additionally, management stated to IA when reviewing the exceptions with them that they did not always have their fuel supervisor available and would consider having the logistics supervisor be a part of the process.

- Kelley Hwy should stick the tanks before and after the delivery of fuel.

Recommendation: Kelley Why should stick the tanks before and after to validate the number of gallons dropped are accurately reported on the delivery ticket. Additionally, the fueling locations should consider periodically “sticking” the tanks to reconcile to the accuracy of the fuel being dispensed is correct and because the fueling locations do not calibrate the pumps.

Management Response:

The current Kelley Hwy fuel facility has built in electronic measuring devices (Veeter system and volume probes) that are more accurate than manual stick measurements.

Additionally, the pumps at the Kelley Hwy facility will be undergoing calibration before the end of March 2024.

“Stick” measurements only work if the corresponding volume chart for the UST is available. No current staff members have found the correlating “Stick Chart/Table”, so verification of volume to measured depth is not available.

Staff now observes when tanks are filled and the delivery agent stick the tank before and after filling.

Responsible: Jessamy Marr (Lance A. McAvoy)

Implementation Date: February 16, 2024

Assessment of Managements Responses:

IA does not agree with all of management’s responses. IA understands that the Veeder (not Veeter) system identifies how much fuel is obtained for an asset, there are times when the system can be

inoperable. The recommendation of sticking the tank was mainly for the before and after the delivery of fuel to ensure the correct amount of fuel was dropped.

IA is not aware that the fueling station performs a business inventory reconciliation that automatically calculates fuel variances. Moreover, Utility Department can obtain the charts from the fuel tank company and IA has found charts online.

IA does agree with undergoing pump calibration by the end of March 2024. Also, IA does agree with managements responses that the staff will observe the sticking of the tank before and after fueling, which contradicts the first part of managements responses. Additionally, a special paste can be applied to the stick to detect water in the fuel and to more accurately measure the fuel level. Utilizing the paste helps protect our assets and also making sure no water is in the tanks. The stick amounts should be documented on the deliver ticket.

- Fuel Safety (i.e. location of the washing station, emergency shut off valve, fuel clean up materials) protocols are not provided to the employees.

Recommendation: Fuel safety protocols should be developed and all employees who fuel assets should be trained and the training documented.

Management Response:

Water Utilities has both annual training as well as new hire/transfer training on proper use of the fueling system and fuel safety. This includes the location of the emergency shut off button and fuel spill mitigation.

Training for everyone who uses the fueling stations should be covered by their department, or included in annual training by the Human Resource Department.

Responsible: Water Utilities Safety Training completed prior to Audit
City wide safety training by either individual departments or HR

Implementation Date: Completed Prior to Audit

Assessment of Managements Responses:

IA does not agree with management’s responses. It should be the responsibility of the Kelley Hwy fueling location to proactively work with HR regarding safety and fuel protocol training. This should not only be the responsibility of HR. IA inquired about safety training and at no time was it stated annual training was provided or provided documentation of those employees who received safety and fuel protocol training.

Additionally, when IA asked what the procedure would be if fuel was spilled on a person it was said that kitty litter would be used, no other procedures were discussed. Lastly, IA asked multiple employees at Kelley Hwy and they stated they do not recall ever having received any type of fuel or safety training. While emergency shut off button and fuel spill mitigation might be clearly marked, it does not indicate that an employee would know what steps they should take to rectify the situation. IA took pictures of the fuel pumps and area, there were no spill kits next to the fuel pump area.

As stated above, the recommendations are meant to provide general thoughts and feedback based on the current control structure. Each recommendation should be seriously considered by the department and other departments handling fuel. It is important that the City properly control and monitoring the fuel usage, storage, and reporting in order to avoid any potential misuse of the City's assets.

Observation:

- The City has the option to pay the Oklahoma tax rate instead of the Arkansas rate. Since Oklahoma is a neighboring state that the City of Fort Smith borders, the City is authorized to utilize their rate, which is lower than Arkansas rate by approximately .12 cents per gallon for unleaded fuel. The City should utilized this opportunity, which could save approximately \$2,000 a year in unleaded sales tax.

Managements Response: The Kelley Hwy facility will continue to purchase fuel and use the Arkansas rate. To use another state when more than 98% of the fuel is used in Arkansas seems morally and ethically fraudulent. Additionally, Fort Smith benefits from the tax turn back program for part of this fuel purchase that then benefits the City of Fort Smith and citizens thereof.

- The fueling locations should weekly provide the departments with the fuel rate so the departments can reconcile the fuel charges monthly to verify the correct amount was charged to their budget.

Managements Response: Reports for use at the Kelley Hwy facility are provided on a monthly bases to departments for tracking and reconciliation of expenses. To generate reports on a more frequent basis is a timely act and the return on investment is not significant enough to change the protocol.

Management was not required to respond to the observation. However, since management respond, IA does not agree with the responses. It is not morally or unethically fraudulent to use a neighboring states tax. IA obtained the information directly from the State of Arkansas Department of Finance and Administration – Revenue Division. Moreover, they provide the Arkansas Motor Fuel Tax Rates every year online, which identifies the neighboring states rates and the allowance to use that rate. Fort Smith does benefit from the tax turn back program, a one-half percent sales and use tax dedicated to fund county roads, city streets and bridges. However, according to the Finance director, the City receives an amount back based upon Fort Smith's population. It is not based upon what the City pays to the state and the program was set to expire in 2023. IA spoke with the Finance Director regarding the ability to use Oklahoma's tax rate and he agreed that was something the City should take that opportunity and save money.

The Kelley Hwy fueling location emails, typically weekly, the fuel rate for that week to the police department. IA recommendation was to provide the fuel rate to all of the departments so that they can reconcile their fuel amounts that are charged to their department. It is not too timely to set up one email group that can be used to notify all departments, instead of just the police department. The observation was based off of the fuel rate and being provided to all departments. The recommendation was not related to the reports that are provided monthly to the departments.

All departments were sent a memo identifying the discrepancies noted above to ensure they implement the recommendations needed for their department.

Pictures of the fueling area at Kelley Hwy. Picture #1 is the fire extinguisher and no spill kits or materials. Picture #2 is the fueling pumps and Prokee system. Picture #3 is the unleaded pump. Picture #4 is the diesel pump. Picture #5 is the Syntech system.



Picture #1



Picture #2



Picture #3



Picture #4



Picture #5

Wiring and system to underground tanks

