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February 14, 2024

City of Fort Smith Board of Directors
SUBJECT: Fuel Audit – Sanitation 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 gallons, 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 were 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 improving the use and control over the fuel stations. Based on this assessment, it is likely that a follow-up

procedure will be scheduled when the three locations are connected 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:

- 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 them to ensure the correct prices are charged on the invoices.

Management Response: We have started reviewing the charges, ensuring that we are charged correctly and receiving the correct credits. We are comparing the delivery tickets to the invoices to ensure they match.

Responsible:

Implementation Date: Feb. 2, 2024

Assessment of Managements Responses:

IA agrees with the management's responses. Management did not assign who is responsible for this procedure.

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

Recommendation: Sanitation 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: We will develop written procedures for the comprehensive use of our fuel system. Safety training will provide for the remediation of potential fuel spills.

Responsible:

Implementation Date: March 1, 2024

Assessment of Managements Responses:

IA agrees with the management's responses. Management did not assign who is responsible for this procedure.

- Cameras are not periodically reviewed to ensure proper safety protocols are followed and only City assets are being fueled. 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: All cameras are operating. We will review the cameras more often as time allows. We look for large discrepancies in fueling per division and vehicle.

Responsible:

Implementation Date: Feb. 19, 2024

Assessment of Managements Responses:

IA agrees with the management's responses. Management did not assign who is responsible for this procedure.

- Sanitation does not have locks and/or anti-siphon devices on above ground fuel storage tanks.

Recommendation: Sanitation 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: We have purchased and installed locks on the fuel tanks to prevent theft.

Responsible:

Implementation Date: Feb. 16, 2024

Assessment of Managements Responses:

IA agrees with the management's responses. Management did not assign who is responsible for this procedure.

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

Recommendation: Sanitation 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: We've started checking the rack rate and ensuring that the invoice quantity and price are the same as the delivery ticket.

Responsible:

Implementation Date: Feb. 9, 2024

Assessment of Managements Responses:

IA agrees with the management's responses. Management did not assign who is responsible for this procedure.

- Sanitation does not stick the tanks before and after the delivery of fuel.

Recommendation: Sanitation 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: We will start sticking the tanks before and after to ensure the accuracy of the amount noted on the delivery ticket. We will, also, start sticking the tanks to reconcile the accuracy of the dispensed fuel. We are having the fuel pumps calibrated March 5, 2024, and will have them calibrated every year following.

Responsible:

Implementation Date: Feb. 16, 2024

Assessment of Managements Responses:

IA agrees with the management's responses. Utilizing the paste helps protect our assets and also makes sure no water is in the tanks. Management did not assign who is responsible for this procedure.

- 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: Each person will be trained by his or her supervisor on the fuel safety protocols that are developed and will be documented with the signature of each person and the training supervisor.

Responsible:

Implementation Date: March1, 2024

Assessment of Managements Responses:

IA agrees with the management's responses. Management did not assign who is responsible for this procedure.

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

controls and monitors 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 utilize this opportunity, which could save approximately \$2,000 a year in unleaded sales tax.
- 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.

While this fueling location did not have the following exceptions, IA listed them below so that Sanitation can ensure they do not have these exceptions in the future.

- 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. All departments should review the transactional details of their activity within the fueling process. Any discrepancies should be reported immediately to the fuel location to be corrected. 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. Departments should perform periodic, surprise reviews of the keys. Any discrepancies should be reported immediately to the fuel location to be corrected. 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. 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.

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