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Auditor of State Advisory Memo

To: All Local Governments, Public Offices and Independent Public Accountants

From: Keith L. Faber, Auditor of State

Date: September 28, 2021

Subject: **Fuel Inventory/Usage and Fuel Card/Account**

Purpose

Provide general background related to the importance of good internal controls, policies, and procedures related to fuel inventory and usage and fuel card expenditures, as well as specific guidance related to implementing and managing these controls.

Policy/Procedure

Policies and procedures, including internal controls, related to fuel inventory and usage and fuel card expenditures are important to ensure public dollars are properly accounted for and spent. Policies and procedures should be approved by the governing authority and communicated to all applicable employees. Policies and procedures should be reviewed regularly and updated, as necessary, to ensure they are functioning as intended.

Fuel Inventory and Usage – Governments that purchase fuel in bulk for use in government vehicles and equipment should consider the following elements when developing a policy/procedure: who is authorized to purchase the bulk fuel, how are these purchases tracked, who has access to use the fuel, how is the fuel usage tracked, who reconciles and monitors the fuel usage, and how is the fuel secured?

Fuel Card – Governments that use a fuel card or account and allow employees to purchase fuel for use in government vehicles and equipment should consider the following elements when developing a policy/procedure: who is responsible for overseeing the card/account, who has access to use the card/account, does access require pre-approval, what are the spending limits, how is access/use tracked, are receipts required, and are receipts reconciled to the monthly bill/invoice?

Restricted Access

Certain preventative control measures should be considered to protect against the unauthorized use of fuel inventory or the fuel card/account.

Fuel Inventory and Usage – Physical security of the fuel tank is one such preventative control. Governments should consider the placement of locked gates limiting access to the fuel tank and locking mechanisms on the fuel pump, limiting access to authorized personnel. An additional physical security measure to consider is the installation of a security camera in the fuel pump area to monitor usage.

Fuel Card – Similarly, physical security over fuel cards can serve as a preventative control. Policies that limit the actual number of cards and the employees authorized to use them, as well as the centralized storage of the physical cards when not in use and log in/log out sheets should be contemplated. For a fuel account, the vendor should require identification to be matched to a list of authorized users provided by the government. Additionally, for fuel cards assigned to employees, governments should consider comparing the “miles per gallon” on assigned fuel cards to mileage logs to ensure the miles driven between fueling are reasonable (i.e., to ensure the card holder is not filling up a personal vehicle).

Inventory

In addition to preventative controls, it is also important to implement detection controls over fuel inventory and usage. Not only is it important to keep track of fuel inventory, but also to have an accurate inventory of government-owned vehicles and equipment.

Fuel Inventory and Usage – Governments should consider tracking mechanisms that can be put in place to allow management to monitor fuel inventory and usage. Usage logs should be kept that document: the date, pump location (if multiple pumps exist), employee ID, vehicle ID, odometer reading, purpose for use, and gallons of fuel pumped. These usage logs should be regularly reviewed by management to confirm completeness and accuracy of the logged information. Management should also periodically review, looking for trends in miles per gallon for each vehicle, usage by location (if multiple pumps exist), usage by department (if applicable), and total fuel usage by vehicle, and number of fill-ups per day and investigate any anomalies.

Fuel Card – Governments should also track fuel purchases with fuel cards or on account, requiring a usage log to be maintained with information that includes: date, employee ID, vehicle ID, odometer reading, purpose for use, and gallons of fuel purchased. Receipts should be required to be obtained for each fuel purchase. The usage logs should be regularly reviewed by management to confirm completeness and accuracy of the logged information. Similar to when the fuel inventory and usage method is used, management should review periodically (i.e. monthly), looking for trends in the data and investigate any anomalies.

As it relates to inventory of government-owned vehicles and equipment, governments should consider keeping records of: the date placed in-service, how much fuel it holds, average miles per gallon, and the type of fuel used. This inventory should be reviewed regularly to ensure it is up-to-date and management should be familiar with this information as they perform periodic reviews. If a vehicle or piece of equipment is taken out of commission, support should be maintained to document the last date in-service.

Reconciliation

Another detection control that should be implemented by governments that have bulk fuel inventory and/or fuel cards is periodic reconciliation procedures.

Fuel Inventory - A monthly reconciliation should be performed that takes into account the beginning fuel in the tank, plus fuel purchased (per invoices), less the fuel used (per tracking mechanism) to obtain the ending inventory amount which should then be compared to the fuel remaining in the tank to ensure all

fuel is properly accounted for. This reconciliation should include a physical review of the fuel tank by the employee charged with completing the reconciliation. The reconciliation and supporting documents should be provided to and reviewed by the board.

Fuel Card – The monthly statement from the vendor or credit account should be compared to the tracking mechanism to ensure each purchase is included in the tracking mechanism and is properly supported.

Travel Reimbursements

Rather than maintain fuel inventory or fuel cards, some governments may consider providing reimbursements to employees for travel. The government should have a travel reimbursement policy approved by the governing authority that provides the requirements and qualifications for reimbursing employees for travel expenses. The policy should address such items as whether pre-approval is required, the reimbursement rate, required support for reimbursement (mileage log, receipts, etc.), the approval process for reimbursement, as well as any required forms to be completed. It is not recommended to reimburse for fuel purchases for personal vehicles unless there are established controls to verify the fuel was used in its entirety for government purposes.

Conclusion

The purchase and use of bulk fuel and/or fuel cards for government-owned vehicles and equipment or providing travel reimbursements understandably meets an operational need for many governments; however, without proper controls in place, they are subject to potential misuse and misappropriation. All public entities have a responsibility to develop and maintain appropriate internal controls to protect government assets/funds and ensure they are used for a proper public purpose. Not only is it important to put in place requirements for items such as usage/mileage logs and reconciliation procedures, but it is equally important that these items are regularly reviewed by management and questions are asked if discrepancies are noted. This active monitoring creates a perception of detection that serves as a deterrent for misappropriation.

For questions, please contact the Center for Audit Excellence at the Auditor of State's Office at (800) 282-0370.