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DIVISION OF MUNICIPAL AUDIT**

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April 30, 2009

Mr. Mike Smith, Executive Director  
and Members of the Policy Council  
Southwest Human Resource Agency  
P. O. Box 264  
Henderson, TN 38340

Ladies and Gentlemen:

We have concluded our investigative audit of selected records of the Southwest Human Resource Agency [agency]. The purpose of the investigative audit was to address specific allegations, forwarded to us by the Tennessee Bureau of Investigation, concerning agency fuel purchases made through the Fuelman system. This investigative audit focused on the period January 1, 2007, through January 31, 2008. Our investigation consisted primarily of making inquiries, examining agency fuel records, interviewing employees and vendors, and other tests and specialized procedures deemed necessary.

Our investigative audit identified that, during the period January 1, 2007, through January 31, 2008, fuel purchases totaling at least \$2,574 were apparently diverted to nonagency vehicles.

The agency used the Fuelman fueling system. Authorized operators obtained fuel from participating retail gas stations. Essentially, each vehicle was assigned a unique vehicle card and each authorized operator was assigned a unique personal identification number [PIN]. The vehicle card was swiped at the gas station in the same way a credit card would be used. The operator entered his or her PIN as well as the vehicle odometer reading. The purchase information for each transaction, including the vehicle, operator, location, odometer, etc., was recorded and communicated to the agency on a weekly basis. In addition, the vendor highlighted questionable transactions for further investigation by the agency.

Our investigative audit revealed the following discrepancies:

- For one agency vehicle, the number of gallons allegedly put in that vehicle at a single fueling frequently exceeded the actual fuel tank capacity for that vehicle. Fuel purchases that exceeded tank capacity for that vehicle totaled at least \$1,417. We also noted at least \$1,157 in additional fuel purchases for vehicles in which the circumstances of those purchases was inconsistent with mileage logs, maintenance

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records, and other records and operational information obtained from the agency. The total of questionable fuel purchases was \$2,574.

- At least \$496 of the \$2,574 in questionable purchases was made using the PIN assigned to the agency transportation department director.
- Unauthorized use of the Workforce Investment Act (WIA) staff PIN number resulted in at least \$843 in improper charges to the federally funded WIA program.
- PINs of at least six agency employees were apparently used to divert Fuelman purchases for nonagency use without the knowledge or consent of the agency employees. Individual employee's PINs were used at locations which, according to the employees, they had never visited. Agency employees told state auditors that they did not share their PINs. The agency transportation department maintained a list of all PINs.
- There were frequent erroneous odometer entries by those fueling vehicles that did not correspond to the vehicle the fuel was supposedly intended for. Auditors identified groups of incorrect odometer entries that were clearly intentional, and appeared to be a characteristic or indicator of fraudulent fuel purchases.

The agency transportation director was responsible for approving Fuelman purchases. However, she told state auditors that she had not reviewed the fuel usage information, even though she acknowledged that she "was probably supposed to." She stated that she had instructed her administrative assistant to review the fuel transactions. However, the administrative assistant told state auditors that she had never been asked to perform that task. In either case, the transportation director failed to ensure that exceptions noted by the vendor were investigated and resolved, PIN numbers were secured, or Fuelman cards were safeguarded. On May 19, 2008, after our investigative audit started, the agency adopted a policy outlining proper use of Fuelman cards. We found no evidence that the agency had adopted a written policy prior to that date. In addition, the agency's executive director initiated an internal review of Fuelman purchases. The responsibility for approving Fuelman purchases was removed from the agency transportation director and transferred to the agency's fiscal office.

The agency transportation director also told state auditors that she allowed her husband to fuel her agency vehicle, using her Fuelman card, on two occasions.

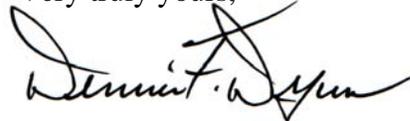
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*Accounting and Financial Reporting for Other Governments Receiving Grant Funds in Tennessee*, Internal Control, Information and Communication, lists specific examples of internal control, including, "Management should establish clear accounting policies and communicate them to personnel verbally and in written form."

This matter was referred to the local district attorney general. On December 11, 2008, a criminal summons was issued in McNairy County, Tennessee, charging William D. Turner, the husband of the agency transportation director, with Theft under \$500 and fraudulent use of a debit/credit card. Mr. Turner was charged with purchasing fuel for his personal vehicle using a Southwest Human Resource Agency gas card without agency permission. On April 2, 2009, Mr. Turner pled guilty to the theft charges.

As previously noted, the agency transportation director told auditors that she had allowed her husband to use her Fuelman card for agency use on two occasions. However, that explanation failed to account for either the transaction covered by her husband's guilty plea noted above, or the other specific transactions questioned in our investigative audit.

Very truly yours,

A handwritten signature in black ink, appearing to read "Dennis F. Dycus". The signature is fluid and cursive, with a large initial "D" and "F".

Dennis F. Dycus, CPA, CFE, Director  
Division of Municipal Audit

DFD/RAD