



INTER-OFFICE MEMORANDUM

TO: Anthony Nicks, Director of Internal Audit

FROM: Herman Hicks, Assistant Audit Manager

DATE: March 2, 2011

SUBJECT: PS Energy 2010 Invoice Audit

Introduction

Fulton County exercised its option to renew the existing contract with P.S. Energy Group to provide fuel management services on October 11, 2010. PS Energy Group presently oversees the fuel operations and regulatory compliance for all of the Fulton County Government's fueling stations. In addition to management services the company provides fuel at retail outlets using Wright Express credit cards.

The Whitehall Unattended Fueling Outlet (UFO) accounted for 90.44% of the invoiced fuel expense for Fulton County in 2010; therefore, most of our audit efforts were directed at the Whitehall UFO location. The contract period is February 1, 2011 through January 31, 2012.

Objective

The objective of our audit of P.S. Energy Group invoices was to determine whether sufficient internal controls exist for processing invoices and whether the invoices submitted to Fulton County conform to the terms of the contract.

Scope

The period covered by the audit is January 1, 2010 through December 31, 2010.

Methodology

We met with Fulton County's Fuel Manager and the executive management and key staff of PS Energy Group to discuss the billing process and to identify those factors which affect the

processing of invoices. Fuel taxes, contract add-on fees and daily Oil Price Information Service (OPIS) rack rates were identified as the major components of the fuel transactions invoiced.

We obtained, analyzed, and reconciled detailed billing data from PS Energy Group's secured web site. Variances between audited results and actual billings were discussed with executive management.

Background

Fulton County's General Services Transportation and Logistics Division is responsible for purchasing and dispensing fuel. PS Energy Group was contracted to provide fuel management services and fuel supplies. Fuel management services include monitoring and managing fuel dispensing, data collection, fuel usage, fuel tank monitoring, dispenser equipment maintenance, environmental reporting, and fuel card reproduction throughout the County.

According to the terms of the Fuel Management Services Contract, PS Energy Group also agreed:

- To provide Wright Express fuel credit cards for a limited number of users.
- To restrict the credit card purchases to fuel only.
- To charge the County an across the board price per gallon of fuel purchased at retail outlets and for credit card purchases, based on the Doraville OPIS index. The price per gallon is to reflect the Federal Tax Exemption Rebates collected on the County's behalf.
- To charge the County an add on fee per gallon of fuel pumped for collecting, managing and reporting fuel data and monitoring the fuel tanks.

The total value of the PS Energy Group contract is \$578,690. This consists of reimbursements for fuel purchases limited to \$523,888 and fuel management services equal to \$27,489. This was the second and last option exercised to renew the fuel services contract.

Findings and Recommendations

Finding 1 – Whitehall Fuel Purchases

The contract stipulates that the Federal Fuel Excise tax should be exempt and not be included in the cost of fuel purchased by Fulton County. In addition to add-on fees and other fuel taxes, the contract indicates that OPIS rack rates are to be used as the basis for Fulton County fuel charges. For testing purposes, P.S. Energy Group's Chief Financial Officer identified the OPIS rate categories which should be used for fuel purchases.

The total Whitehall UFO fuel invoice charges totaled \$571,609 for 2010. The audited amount for 2010 was \$516,620, resulting in an overbilling of \$54,989; this represents an error rate of 10.644% (See Exhibit A) The management of PS Energy Group indicated that the cause of the overbilling could be due to using incorrect OPIS rack rates. Fulton County's Fuel Manager indicated that invoice processing could have been affected by turnover in the customer service and

accounts receivable sections of PS Energy Group, during 2010. Invoices, which are not tested for accuracy and adequately reviewed by designated personnel at Fulton County, increases the risk of overpayment for goods and services.

Recommendation:

Fulton County should retroactively calculate the fuel expenses from the previous six years, 2004 and forward. The review should be undertaken by the General Services Transportation and Logistics Department and overseen by the Fuel Manager. At the completion of the review the General Services Managers should meet with the P.S. Energy's management to discuss the results.

As of the date of this report, P.S. Energy Group management has assigned an employee to review the billing computations for 2010. The projected completion time of the review is two to three weeks.

Finding 2 – Wright Express Fuel Card charges

According to the terms of the contract, P.S. Energy agrees to bill Fulton County an across the board price based on the Doraville OPIS index for retail outlets and credit card purchases plus the management add-on fees and applicable taxes. The total Wright Express credit card invoice charges totaled \$28,860 or 2010. However the audited amount for 2010 was \$23,945, resulting in an overbilling of \$4,915. (See Exhibit A)

Additionally, we compared the charges for 37 Wright Express receipts retained by Fulton County employees to the billing detail and found that 6 receipts were not recorded. The unrecorded receipts were issued during the last 3 to 5 days of the respective month and were not included as part of the next month's invoice. The error rate resulting from the 2010 overbilling for credit card fuel purchases is 20.5% and material. The sample error rate for not billing Wright Express charges is 16.22%.

We believe that incorrect OPIS rates and exempt taxes are the factors which contributed to the excessive billing of fuel costs. We were unable to determine why PS Energy failed to bill the County for all of the Wright Express credit card charges. Invoices, which are not tested for accuracy and adequately reviewed by designated personnel at Fulton County, increases the risk of overpayment for goods and services.

Recommendation:

Monthly billings for Wright Express charges should be reviewed and reconciled to the related receipts by the respective departments. Standard Operating Procedures should be updated to include internal control provisions which require the employees to turn in fuel receipts to their department's fleet manager. PS Energy should submit on a monthly basis, departmental listings of

Wright Express fuel tickets, and the department's fleet manager should reconcile the fuel receipts to the listings.

Finding 3 – Savings from Exemption of all Fuel Taxes

The 2010 Fulton County travel card charges include Georgia State fuel taxes that would have been exempted under the State of Georgia's contract with Wright Express Fuel Card Services. By processing the travel card charges through P.S. Energy Group's commercial contract Fulton County paid state fuel taxes of \$1,509.99 and add on fees of \$1,783.48 that could have been avoided. The Wright Express Regional Sales Manager provided documentation which indicates that Fulton County's status as a local municipality allows it to be covered under the contract between Wright Express and the State of Georgia. This contract allows for the exemption of all fuel taxes, both state and federal, for fuel purchases made with the Wright Express fuel cards. This benefit would raise Fulton County's exemption rate for taxes per gallon from 18.37 cents to 41.5 cents per gallon. The savings that would have been recognized in 2010, if this exemption had been in place, is \$3,293. Some additional benefits of the Wright Express System are:

- Access to many of the State of Georgia Fuel terminals.
- A network of 351 participating gas stations in the Atlanta area
- The lowest cost retailers are listed on the Wright Express web site.
- The web site provides extensive reporting data provided in an EXCEL format for the preparation of reports and analysis.

Recommendation:

Fulton County's Fleet Manager should contact Wright Express Regional Sales Manager and PS Energy Group and complete the Addendum to Fuel Card Management Services Agreement, which becomes a part of the agreement between Wright Express System and the State of Georgia. Fulton County should also complete the Certificate of Buyer of Taxable Fuel for Use By a State or Nonprofit Educational Organization. Once the Addendum is approved, PS Energy Group should update its billing platform to reflect the exemptions allowed for fuel taxes.

Finding 4 – Contract Specifications

PS Energy's executive management confirmed that the OPIS daily rack rate should be used as the primary cost factor for fuel charges for the monthly invoices. Fulton County's Fuel Management Services Contract on page 30 of 79, also states that the OPIS rack rates should be used for billing. The OPIS Standard Rack Prices have three rate columns listed. Fulton County's Fuel Management Services Contract does not specify which of the three cost columns the rates should be taken from. We used the cost column selected by PS Energy Group, as the rates per columns were not materially different by .079%. This specification is a key factor in computing fuel costs for billing purposes. The invoicing or billing section of the contract with PS Energy Group did not specify detail transaction support schedules which show all of the components of the individual fuel charges. The contract does not require details that are key elements for reviewing the

monthly invoice accuracy. The effect of not having detail support which shows all of the billing components is that invoices are not easily reconcilable or auditable for Fulton County staff and more errors are likely to go unnoticed.

Recommendations:

The contract should be updated to include the appropriate OPIS rack rate classification to be used, since the rates vary by classification. A detail and total of the per gallon tax rates used should also be included in the invoice documentation. The variance rate during 2010 averaged .079% which is approximately \$413 for 2010.