



Wicomico County, Maryland
OFFICE OF THE INTERNAL AUDITOR

P.O. BOX 870
SALISBURY, MARYLAND 21803-0870
410-548-4696
FAX 410-548-7872

Steve Roser CPA, CIA-CRMA, CFE
Internal Auditor

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Internal Auditor's Report

The County Council and County Executive of Wicomico County, Maryland:

Pursuant to Section 305(D) of the Wicomico County Code and Council Resolution No. 120-2015, the Office of the Internal Auditor (IA) has conducted an Audit of Wicomico County fuel pricing. A report is submitted herewith. The purpose of the audit was to determine the adequacy of procedures and controls along with the level of compliance with those procedures and controls for the process of purchasing fuel and monitoring prices for Wicomico County.

IA conducted the audit with due professional care, and IA planned and performed the audit to obtain reasonable assurance about whether the current fuel prices are in compliance with contracts in force and to assess the county's ability to account for pricing of various fuel products.

IA extends our appreciation to Management and Staff in numerous Departments for their timely assistance, cooperation, and candid assessment of fuel pricing.

Respectfully submitted,

J. Stephen Roser, CPA
Internal Auditor

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Audit Report

Background

Wicomico County Fuel Purchasing

Wicomico County purchases the following fuel commodities on a regular basis:

- Unleaded Regular Gasoline
- Diesel Fuel
- Fuel Oil
- Natural Gas
- Propane

The largest users of propane are Public Works (Landfill and Roads Divisions), the Airport, and Recreation and Parks. The Board of Education uses large amounts of propane, and although frequently included in the bidding process, the bills are not paid from county general funds. The Government Office Building and the Detention Center use natural gas. Many county facilities have fuel oil storage as a backup fuel source. Vendors deliver all gasoline and diesel fuel to the Roads Division Complex on Owens Branch Road.

Audit Objective

The objectives of the audit were to:

1. Gain an understanding of gasoline, diesel, fuel oil, propane, and natural gas pricing for Wicomico County
2. Verify contractual pricing adherence by vendors
3. Suggest ways to monitor pricing

Scope of the Audit

The audit period examined on a test basis was FY 2015. The Scope was open ended. Observations, interviews, and Inquiries with appropriate personnel were conducted. IA performed inspections of selected documentation including supplier contracts and associated billing.

Bidding and Pricing

The county uses standard bidding procedures for fuel contracts. The prices for most of the fuel consumed by the county fluctuate so that most bidders cannot bid a fixed price for the term of a contract. Some of the county's suppliers use information provided by the Oil Price Information Service (OPIS). OPIS is a private information service that began in 1977 and currently provides spot and rack (wholesale) pricing for all refined products in specific locations. For example, OPIS has rack pricing specifically for Salisbury. Some of the county contracts provide pricing that tie to the rack price. OPIS charges a large fee to provide pricing. IA was unable to secure pricing from OPIS. A breakout summary of pricing and bidding for the test period follows:

Fuel Pricing FY 2015

| Fuel Type | Supplier | Bid Price | Billing Range |
|-------------|---------------------|---|---------------------|
| Gasoline | Ocean Petroleum/PMG | Rack price + \$.0045 per gallon | \$1.436 - \$3.156 |
| Diesel | Ocean Petroleum/PMG | Rack price + \$.0045 per gallon | \$1.7538 - \$3.1398 |
| Propane | MROHS | \$.99 subject to change without notice ¹ | \$1.07 - \$1.70 |
| Natural Gas | UGI Energy Services | \$4.28 Aug - Oct | \$4.28 |
| Natural Gas | UGI Energy Services | \$5.40 Nov - Jul | \$5.40 |
| Fuel Oil | James River | Rack price + \$.0058 per gallon | \$1.7940 - \$2.9604 |

Without access to OPIS wholesale information, it is not possible to determine adherence to contract pricing by the vendors with the exception of natural gas. IA found no variance between contract pricing and billing from the county's natural gas supplier.

Conclusion

Based on the available information, IA is of the opinion that the supplier of natural gas satisfactorily² met the terms of the contract in force during the test period. At this time, we cannot offer a conclusion on the other fuel types.

Recommendations

We offer the following recommendations to complement to the audit process:

1. Management may want to consider a subscription to the wholesale information provided by OPIS. As with any decision to purchase additional services, a cost-benefit analysis is in order.
2. Alternatively, management could occasionally request certified copies of the rack pricing from the supplier ancillary to billing.
3. Regular bidding, as a practice, would serve to provide additional control over pricing through the competitive process.

Management Response

[U]nder a new bidding process / contractual arrangement with a vendor that the County could require the OPIS reports included in their bids / prices to compare if there is any pricing disparity.

(Continued)

¹ Per contract: pricing change is tied to the wholesale price incurred by the supplier

² For the purposes of this audit, IA uses a three-tier grading system recommended by the International Professional Practices Framework (IPPF) as expressed by the IPPF Practice Guide issued March 2009. The three tiers are Inadequate System of Internal Control, Adequate System of Internal Control, and Satisfactory System of Internal Control. Satisfactory findings indicate that overall controls are satisfactory, although some enhancements may be recommended. It is the highest rating on the scale.

Auditor's Closing Remark

The Wicomico County Office of the Internal Auditor would like to thank management and staff from the Department of Purchasing for their timely cooperation and assistance during the audit. Additionally, we would like to thank all Departments for supplying requested billing information.