

Reconciling Fuel

Introduction

Accounting for fuel is unlike any other product found at the convenience or grocery store. When it comes to candy bars, for instance, the process of reconciling purchases is rather straightforward, or at least manageable, within a standard back-office system. The invoices lack complexity, and prices match to purchase orders. Invoices are processed efficiently with low approval tolerances. It helps that the cost of a candy bar does not fluctuate throughout the day, and the opportunities to lose track of on-hand inventory are limited. In other words, accounting personnel can exert a tremendous amount of control and precision over the invoice reconciliation process for candy bars because they are not volatile commodities.

Fuel is quite different in that suppliers, carriers, fuel prices, resulting taxes owed, and delivery costs can vary greatly from delivery to delivery. There are also a myriad of reasons why an invoice will not reconcile easily to a delivery. They include fuel temperature variations, improperly calibrated tanks, cross drops, carrier theft or error, under-dispensing fuel terminals, changing tax rates and rules, and more. With multiple versions of the truth found in the invoice, bill of lading (BOL), delivery confirmation, and automatic tank gauge (ATG); how does an accountant know which one is right?

As fuel represents more than two-thirds of a convenience store's revenue, fuel costs remain high and margins stay thin; reconciling fuel purchases accurately, reliably, and efficiently is essential in today's world. Reconciliation though is not a one-time event for a fuel purchase; it is actually an ongoing activity that ensures fuel remains available for sale when needed. This white paper will examine the four levels of fuel reconciliation employed today. It will highlight the particular challenges fuel presents to back-office systems, offer a best practice approach to fuel reconciliation, and provide insight into continuous inventory control as a way to optimize reconciliation and inventory management processes.

Analysis of today's approaches for fuel invoice and inventory reconciliation

Level 1: Paper Reconciliation

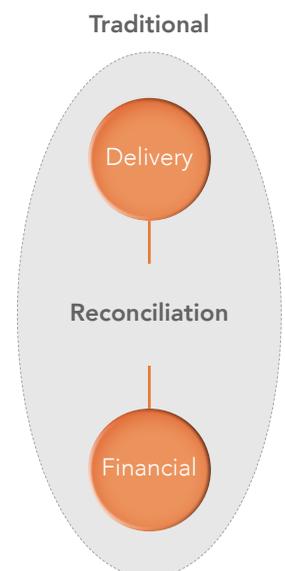
The simplest form of invoice reconciliation is matching of the invoice, BOL, and delivery confirmation. It is called a paper reconciliation because physical verification of the gallons actually delivered does not always occur, contracts are at best spot checked, and approval tolerances are high. Invoices are paid in a timely manner, but the opportunity for overpayment is significant.

This level of reconciliation can exist in vendor managed inventory models or when fuel transactions are not overly complex. Such an approach is susceptible to errors, and the costs to the business are opaque. It is also an approach that does not scale well as the business grows.

Level 2: Traditional Reconciliation

A traditional reconciliation process has two primary elements to it — physical and financial. Physical reconciliation involves verifying the right product was delivered in the right quantity to the right destination. Financial reconciliation examines the invoice line item amounts, making sure they match a purchase order or contract. Based on preset approval tolerances, invoices are then scheduled for payment. So, in addition to the "paper reconciliation" in which the BOL, invoice, and delivery confirmation are matched, there is a physical verification of gallons

delivered that occurs in this approach. Verification involves gathering delivery information from the ATG. There are, of course, many variations on the basic process that can occur. One variation employed by some accounting departments is to split reconciliation processing steps amongst different systems — one verifying deliveries, for instance, while another reconciles prices; or one gathering delivery and price data while another reconciles the invoice. When steps like these are split, the process to resolve an unmatched invoice becomes more cumbersome and costly as multiple systems and data sources must be traversed. Still another variation involves managers using sampling to uncover invoicing issues. No matter the variation, this approach falls short of established reconciliation best practices causing payments on invoices with material and repeated errors.



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The Back-Office Conundrum

A Traditional Reconciliation (or a variation) is often what standard back-office systems employ, as it is consistent with how other inventory items are reconciled. The problem, though, is that fuel is different than any other item found in a store. Fuel presents specific challenges to this process that unnecessarily tax accounting resources and cause margin loss if unaddressed. Here are some of those challenges:

Physical Reconciliation

- 1. Manual BOLs:** In many systems, BOL information is manually entered. It is common to have the BOL entered into the system days after the delivery event — sometimes after the invoice has arrived. Manual entry produces errors, and non-scalable workarounds are often developed to catch the errors before they progress far in the payables process. When it takes days for the BOL to get into the system, payment is delayed, which can jeopardize compliance with payment terms.
- 2. Disparate Delivery Records:** The BOL, delivery confirmation, and ATG each provide a unique and sometimes different perspective on a delivery event. Matching these adds complexity to the reconciliation process, which creates greater opportunities for errors and delays.
- 3. Blending and Split Loads:** Triangulating on how much fuel was delivered is made more difficult when blending or split loads occur, as there are resulting mismatches between the invoice, BOL, delivery confirmation, and ATG.
- 4. ATG versus the Delivery:** If fuel is being dispensed while a delivery is underway, there will be discrepancies between the ATG delivery readings and the BOL or delivery confirmation. The higher the inventory turns at a site, the more likely this problem will arise and the greater the discrepancy between the BOL, delivery confirmation, and ATG. A high inventory turn site, for example, can dispense over 800 gallons in the time it takes to complete a delivery.
- 5. Inventory Variances:** A number of factors can cause ATG inventory readings to differ from the BOL or delivery confirmation. They include temperature variations, uncalibrated tanks, water in the tank, cross drops, and more. The severity of these factors can make reconciliation difficult and, in some cases, impossible.

Financial Reconciliation

- 1. Non-Verification:** The number of invoices or delays in receiving delivery information will cause some accounting groups to forgo verification of gallons delivered or contracted price. Millions of dollars of payments are essentially made on unverified invoices.
- 2. Freight and Fees:** Freight contracts, which may exist separately from the actual fuel contract, can calculate freight differently depending on the carrier. There are also numerous fees that can appear on an invoice or comprise the actual freight amount. Many times, freight is actually embedded within the fuel price, and the amount is not easily discernible to accounting. Reconciling freight accurately is a difficult and laborious process.
- 3. Fuel Taxes:** The tax regime for fuel is complex, fluid, and specific to a state, county, and sometimes municipality. Cross-border transactions make taxes even more difficult to track. Like freight, taxes can also be embedded in the fuel price and difficult to discern. Reconciling this portion of an invoice is often done incorrectly or not done at all.
- 4. Contracted Supply:** Contracted fuel prices are commonly based on one or multiple indices. Reconciling these costs requires access to expensive subscription data to know what the index price was for a particular load of fuel on a specific day and time. It is important this occur though as daily fuel prices swing by 3 cents or more nearly 50% of the time. Also, a load of fuel can sometimes span multiple contracts for a single supplier. This further complicates reconciling contracted supply.
- 5. Blending and Biofuels:** Blending complicates the price calculation for fuel as well as the resulting tax implications. Biofuels, in fact, have their own unique taxes, which are jurisdictionally specific and can change frequently.

Each of these challenges places such a strain on standard back office systems that workarounds often emerge. These workarounds include:

- 1. Skipping important reconciliation steps** and relying on supplier or carrier invoice accuracy,
- 2. Setting high tolerances** so more invoices are approved for payment despite invoice or delivery inaccuracies,
- 3. Adding headcount** to manage the increased reconciliation workload, or
- 4. Accepting higher levels of error** as a cost of doing business and hoping gains and losses will wash in the end.

Based on Veeder-Root's experience working with a variety of fuel retailers in the market—both big and small—greater than 10% of all invoices are incorrect in some manner. A majority of the time it is to the detriment of the fuel buyer. So, the fuel retailer is paying more than they should on a significant number of invoices and in some cases actually paying invoices that are not even their own. Unfortunately, accounting groups are left with few options as their existing back-office accounting system lacks the necessary capabilities to tackle fuel invoice reconciliation.

CUSTOMER A with Automated Reconciliation

Challenge

- Major fuel retailer with 900 loads per day
- Back-office system invoice reconciliation

Solution

- Automated physical and financial reconciliation via FuelQuest FMS Financial Management
- 90% of all invoices approved within same day
- 96% of all invoices approved within tolerance electronically
- Invoice approval tolerance of \$15

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Level 3: Automated Fuel Reconciliation

Overcoming the challenges inherent in the traditional invoice reconciliation process for fuel requires full automation. This automated approach—considered a best practice within the industry today—has five elements that distinguish it from the preceding methods of invoice reconciliation:

- 1. eBOL:** Electronic receipt of lifted fuel data speeds the reconciliation process and reduces the likelihood of human error during data processing. eBOLs are available via suppliers and terminals directly or through a third-party integration service.
- 2. Price Verification:** With both fuel and freight contract terms enabled electronically, price reconciliation is fully automated. Ideally, invoices are generated by the supplier or carrier within the fuel management system producing higher auto-reconciliation rates.
- 3. Auto-Approval and Low Tolerances:** The fallacy of auto-approving invoices for payment is the belief that accounting groups must maintain high approval tolerances to achieve high auto-approval rates. This is not true. Through automation, accounting teams can achieve tolerances of \$15 or lower while maintaining auto-approval rates in the 95% or higher range. Reconciliation activities focus more on managing exceptions.
- 4. Tax Calculator:** Given the complexity of fuel taxes, as well as the fluidity of change, verifying tax charges requires an automated tax calculator that houses all the relevant tax rules and rates as well as receives regular updates when rules and rates change.

5. Supplier and Carrier Accountability:

With a process and technology in place that reconciles each line item of an invoice and approves only unmatched invoices under a low dollar amount, accounting managers can work directly with supplier and carrier account personnel to reduce the types of invoicing errors causing exception processing. Over time, these diminish and accounting efficiency metrics improve while scalability increases.

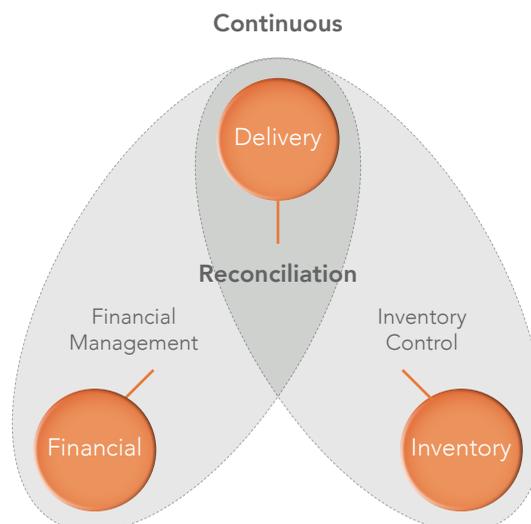
Insite360 Logistics and Financial Management Services provide each of these capabilities and is the de facto industry standard for fuel invoice reconciliation. Once invoice processing completes, fully reconciled invoices are available for payment processing within the appropriate accounts payable (AP) system. Exceptions are handled by the appropriate department and pushed to the AP system once problems are corrected and additional reconciliation is completed. FMS also has the ability to perform bank draft reconciliation against supplier invoices.

This approach achieves the right balance of faster invoice approvals and reduced invoice errors. Through automation, retailers see their invoice reconciliation costs diminish, improved fuel margins via reduced overpayments, and a more scalable accounting organization. Today, some of the largest fuel retailers in the country take advantage of Insite360 FuelQuest technology and services to achieve these goals.

Level 4: Continuous Inventory Control

Looking beyond the invoice reconciliation process, there is another ongoing inventory reconciliation requirement. Once fuel is in the tank, there are numerous opportunities for fuel inventory variances to occur that affect the value and availability of that fuel. Theft, leaks, and other problems, for instance, can cause discrepancies between book and actual inventory. Uncalibrated tanks, cross drops, and other issues can cause incorrect inventory measurements that affect invoice reconciliation efforts and inventory values. So, verifying that the right product was delivered in the right amount must also include ongoing diligence that the delivered gallons are properly tracked and remain available for sale.

Veeder-Root offers this capability with Insite360 Visibility, which takes data from ATGs and point of sale (POS) systems analyzing for inventory variances caused by theft, uncalibrated tanks, cross drops, leaks, and more. Identifying these issues and their causes quickly enables remediation before they develop into expensive losses. It also allows companies to revalue their inventory to account for these variances. Such remediation ultimately causes a more streamlined AP process as delivery verifications will become more accurate over time. Additionally, it positively impacts margin as there is a multiplier effect in terms of the number of gallons the retailer must sell to compensate for a single gallon of fuel loss.



Reconciling Fuel

The following summarizes the four levels of invoice reconciliation. Most back-office systems operate at Level 2 (Traditional Reconciliation). True reconciliation optimization begins at Level 3 with greater automation. Having achieved the automation required at this level, it is a small step to achieve Level 4's continuous inventory control.

Level 1: Paper Reconciliation

- ✓ Matching of invoice, BOL, and delivery confirmation only

- ✗ Great trust put into supplier and carrier processes and systems

- ✗ Does not include ATG verification, tax and freight matching, or 24/7 inventory control

Level 2: Traditional Reconciliation

- ✓ Paper reconciliation plus ATG verification of delivery amount

- ✗ High approval tolerances or laborious reconciliation processes

- ✗ Does not include tax and freight matching as well as 24/7 inventory control

Level 3: Automated Reconciliation

- ✓ Paper and ATG-based reconciliation plus tax and freight matching

- ✗ High auto-match and auto-approval rates with low tolerances

- ✗ Does not include 24/7 inventory control

Level 4: Continuous Inventory Control

- ✓ Fully automated reconciliation plus 24/7 monitoring and remediation of inventory variances

- ✓ Fuel reconciliation is a daily occurrence that catches problems before they become expensive ones

Adoption

Taking steps towards this ultimate model of financial reconciliation and inventory control can happen incrementally, as Insite360 FuelQuest software and services are modular. Many companies can focus exclusively on automating the physical and financial reconciliation of invoices.

There are also options in terms of who performs these tasks. The first is that companies can decide to adopt Insite360 software and integrate it into internal accounting teams, processes, and systems. The do-it-yourself approach is fully supported, and companies can consume as little or as much of Insite360 technology as they choose. Alternatively, these reconciliation and control activities are highly process-oriented and can easily transfer to an external business process outsourcing (BPO) group. To this end, Veeder-Root offers Insite360 FuelQuest Logistics and Financial Management Services for those who want to outsource to third-party experts. This fuel management service optimizes and directs all fuel management activities — from supplier and distributor selection, demand forecasting, and procurement to dispatching, delivery, and invoice reconciliation.

About Insite360 FuelQuest

Insite360 FuelQuest provides on-demand fuel management, tax automation, and compliance solutions for suppliers, distributors, buyers, and traders of petroleum products and other energy commodities. Insite360 FuelQuest's solutions deliver operational and financial value to over 650 customers. These customers include leading global oil companies, international retailers, shippers and government entities. Insite360 FuelQuest's fuel management solutions help customers manage the complexity, regulation and market volatility for more than 22 billion gallons of gasoline and diesel fuel annually.

Learn more at

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