



New Hartford Central School District Internal Controls Over Fuel Inventory

Report of Examination

Period Covered:

July 1, 2006 — May 9, 2008

2008M-186



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2008

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the New Hartford Central School District, entitled Internal Controls Over Fuel Inventory. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The New Hartford Central School District (District) is located in the Towns of New Hartford, Paris and Kirkland, Oneida County and the Town of Frankfort, Herkimer County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The District's transportation supervisor is responsible for overseeing the Transportation Department's operations, which includes accounting for fuel delivered, consumed, and inventoried.

There are five schools in operation within the District, with approximately 2,650 students and 420 full and part-time employees. The District's budgeted expenditures for the 2006-07 fiscal year were approximately \$41 million, which were funded primarily with State aid, real property taxes, and grants.

Objective

The objective of our audit was to examine the District's internal controls over fuel inventories. Our audit addressed the following related question:

- Are internal controls over gasoline and diesel fuel inventories appropriately designed and operating effectively to adequately safeguard District assets?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the area of fuel inventories; therefore, we examined the District's internal controls over fuel inventories for the period July 1, 2006 to May 9, 2008.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on

such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of District
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they will take, or have taken, corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Fuel Inventory Controls

It is important that school districts establish a system of internal controls over their diesel and gasoline fuel to provide reasonable assurance that fuel purchases and subsequent usage are properly recorded and used appropriately. A good system of internal controls consists of policies and procedures to provide clear guidance to staff on how to safeguard fuel inventories. These policies should require limiting access to fuel stores; maintaining perpetual inventory records that identify quantities delivered, consumed and on hand; and conducting periodic inventories to reconcile inventory records to physical inventory levels. It is essential that each driver who is authorized to use the fuel system have a distinct identification (ID) number and each vehicle and piece of equipment have a distinct ID number to accurately track who is pumping fuel and what vehicle or piece of equipment is using the fuel. It is also important for school district officials to review fuel usage reports to ensure only district vehicles and equipment are being fueled and all fuel usage can be accounted for.

The District purchases fuel from a State contract vendor and maintains fuel inventories in one, above-ground storage tank that is segmented into two compartments; one 9,950-gallon compartment for diesel fuel and a second 2,050-gallon compartment for gasoline. The District's fuel pumps are located on District property next to the Transportation Department's office. The District has a fleet of about 50 buses, 10 Buildings and Grounds Department vehicles, one Driver's Education vehicle, and a variety of miscellaneous maintenance equipment. Operators use a key to activate the automated pumping system to provide fuel for District vehicles and equipment. During the 2006-07 fiscal year, the District purchased 58,125 gallons of diesel fuel and 7,228 gallons of gasoline at a cost of \$128,017 and \$14,391, respectively.

We found that District officials have not developed written policies and procedures for controlling vehicle fuel inventories. Without policies and procedures, there is no common standard for employees to follow. This can result in misunderstandings by staff and operations not being performed according to management's expectations. In addition, the District did not assign separate ID numbers for each vehicle and piece of equipment and to each employee authorized to access fuel, and did not require employees to input odometer readings to track mileage. Although District officials did not maintain perpetual inventory records prior to the start of our audit, they did take corrective action by

developing records during our fieldwork and attempting to reconcile the inventory records with the amount of fuel on hand.

The computerized fueling system allows the District to ensure that only authorized individuals may access fuel and fuel pumped can be tracked to a vehicle or piece of equipment; however, the District is not using this function to its full capacity. The District has three keys which can activate its fuel pumping system. One key is maintained by an individual designated to pump fuel for the District's bus fleet, one key is kept in the Buildings and Grounds Department office, and one key is kept in the Transportation Department office. After activating the fuel pumping system by key, the operator enters the pump number and the vehicle number, and then begins fueling the vehicle. The system automatically records the date, time, vehicle number, pump number, and quantity pumped in gallons. The system also has the ability to track employee ID numbers and vehicle mileage; however, the District does not currently assign each authorized employee a distinct ID number or require employees to input odometer readings. Therefore, District officials are not able to assign accountability for vehicle fuel use to a specific employee or monitor vehicle fuel use per mile.

We also noted that equipment (such as mowers and other Buildings and Grounds Department equipment), gas cans, and the Driver's Education vehicle are not given their own unique ID numbers. Therefore, when fuel is pumped for these purposes, two miscellaneous codes are entered into the system instead of distinct ID numbers. Without this type of fuel usage information, District officials are not able to identify and investigate fluctuations in fuel usage and possible thefts.

District officials told us they did not regularly analyze the fuel usage reports for reasonableness (e.g., the date and time fuel was pumped, the number of gallons pumped into vehicles versus the tank capacities, etc.). Periodic analytical reviews of fuel usage records can help to disclose unusual transactions or trends requiring further investigation. Any transactions that do not fit an expected pattern (e.g., fueling on a holiday), seem unusual (e.g., fueling at midnight), or are missing information need to be investigated and resolved.

Finally, the District did not maintain perpetual inventory records showing fuel deliveries, usage and inventory on hand. Although District personnel said that they physically measure¹ the level of fuel in the storage tanks once a week to insure there is sufficient fuel

¹ Physically measuring is a process involving the placing of a calibrated stick into the fuel tanks to measure the amount of fuel (inches) in the tanks then using a conversion chart to convert the stick reading (inches) to a liquid measure (gallons).

for the week's activity, and they stick the tanks prior to, as well as immediately following, fuel deliveries, they do not always record this information and they do not compare it to an inventory record or verify the amounts billed were actually received. The failure to maintain perpetual inventory records and to reconcile them with the fuel on hand increases the risk that errors and irregularities might occur and go undetected.

During our audit, we informed District officials of the control weaknesses over fuel. Under the supervision of the Assistant Superintendent for Business, the transportation supervisor and staff within the Business Office developed a perpetual inventory record for diesel fuel and attempted to reconcile the record with the amount of fuel in the tank. District officials informed us that consumption records were only available in the computer system dating back to January 2008.² The District contacted the fuel supplier and obtained stick measurement readings to determine the beginning diesel fuel inventory as of January 14, 2008, and then added subsequent fuel deliveries before subtracting fuel usage that was reported by the computerized fuel system in order to determine the amount of fuel that should be in the tank as of May 8, 2008. The District took a physical measurement of the fuel in the tank on May 8 and determined that 755 gallons of diesel fuel could not be accounted for.³ This difference represents 2.6 percent of diesel purchased during the period. District officials were unable to perform a similar analysis for gasoline because a gasoline fuel inventory (stick reading) was not available; therefore, a beginning inventory amount could not be determined. District officials indicated that they will maintain perpetual inventory records for both gasoline and diesel fuel in the future and they will reconcile these records to physical inventories on a monthly basis and investigate differences.

In March 2008, just prior to the start of our audit, the District installed a camera surveillance system in order to strengthen controls over its fuel inventories. In addition, the District also obtained a fuel system software upgrade in May 2008, which will allow for the retention of consumption records and help eliminate the problem that occurred with the loss of the pre-January 2008 usage data. Furthermore, the upgrade will allow fuel data to be printed in a more user-friendly form.

² Prior to the installation of updated software in May 2008, the fuel system data was overwritten if data was not transferred from the data entry points to the Transportation Department office computer system in a timely manner. As a result, District officials could not generate complete consumption records prior to January 2008.

³ The balance of fuel that should be in the tank per the perpetual inventory record exceeded the actual inventory on hand.

Recommendations

1. District officials should develop written, comprehensive internal control policies and procedures for its fuel inventories that address the safeguarding of fuel and the maintenance of accurate and timely inventory records.
2. District officials should use their new computer software to its fullest capability including, recording vehicle odometer readings and using separate ID numbers for each employee and each vehicle or piece of equipment.
3. District officials should maintain fuel consumption records and perform analytical reviews to ensure that: miles per gallon per vehicle are consistent between fuelings; recorded fuelings do not exceed the vehicle's tank capacity; and the dates and times of fuelings are reasonable.
4. The District should maintain perpetual inventory records that identify the quantities of fuel purchased/delivered, dispensed and on hand. These records should be reconciled to periodic physical inventories and any differences identified should be promptly investigated and resolved.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.

NEW HARTFORD CENTRAL SCHOOL DISTRICT

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Superintendent of Schools
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October 24, 2008

[REDACTED]
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Dear [REDACTED]

The New Hartford Central School District has received and reviewed the preliminary draft Report of Examination for the audit period July 1, 2006 – May 9, 2008. The New Hartford Central School District appreciates the opportunity to acknowledge the findings and provide our corrective actions in response to the audit recommendations.

During the course of the audit the Comptroller's Office conducted a comprehensive examination of the District's financial processes, including payroll, financial oversight, cash receipts and disbursements, purchasing and personnel services. As part of this examination the Comptroller's Office identified controls and processes that can be strengthened over our fuel inventory. We concur with these recommendations and have implemented a corrective action plan to strengthen these controls.

In 2008 the District installed a new software program to improve efficiencies and tracking methodology for fuel inventory which greatly improved the level of controls over those available under the old system. In addition, the District has installed security cameras on the tank for visual monitoring of tank usage. The Business Office also performed documented analytical reviews of gallons used during the development of the annual budget. The Budget and Finance Committee of the District also reviews monthly appropriation status reports of expenditures which include the fuel budget and analyzes variances. While the audit did not identify any improper use of fuel it did provide recommendations on how to further improve the controls provided by the new system. These recommendations are as follow:

1. District officials should develop written, comprehensive internal control policies and procedures for its fuel inventories that address the safeguarding of fuel and the maintenance of accurate and timely inventory records.
2. District officials should use their new computer software to its fullest capability including, recording vehicle odometer readings and using separate ID numbers for each employee and each vehicle or piece of equipment.

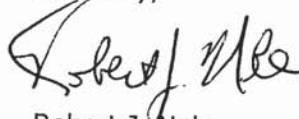
3. District officials should maintain fuel consumption records and perform analytical reviews to ensure that: miles per gallon per vehicle are consistent between fuelings; recorded fuelings do not exceed the vehicle's tank capacity and the dates and times of fuelings are reasonable.
4. The District should maintain perpetual inventory records that identify the quantities of fuel purchased/delivered, dispensed and on hand. These records should be reconciled to periodic physical inventories and any differences identified should be promptly investigated and resolved.

The District concurs with these recommendations and will implement them as described below:

1. Written policies and procedures will be prepared that formalize and delineate responsibility over the processes within the fuel inventory system. This will formally segregate the responsibilities for procuring the fuel, measuring and reconciling the fuel and performing an analytical review over both usage and authorized users.
2. The District has assigned separate ID numbers for employees and vehicles to maximize the use of the new computer software.
3. A complete reconciliation of the perpetual inventory system is performed daily. In addition to this, delivery and receipt of fuel will have a written acknowledgement provided by the supplier to a New Hartford Central School District employee. Fuel tank readings will be taken and recorded from before and after the delivery and the difference compared to the fuel receipt provided by the supplier.
4. A formal monthly analytical review has been implemented to review the detailed usage reports provided by the system as well as to review the authorized users to determine they are still valid. The Assistant Superintendent for Business Affairs, the Director of Transportation and a clerk within the Transportation Department will conduct this review.

We appreciate your assistance in further strengthening our internal controls and processes. The audit was both thorough and professional and we appreciate the communication throughout the audit process.

Sincerely,



Robert J. Nole
Superintendent of Schools

RJN:rak
cc: Board of Education
Mrs. Mary Mandel

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected internal controls over fuel inventories for further audit testing.

To accomplish our audit objective, we interviewed the Assistant Superintendent for Business, transportation supervisor, and the bus driver who is primarily responsible for fueling the District's bus fleet. We also examined the following records and reports in an effort to gain an understanding of the District's fuel operations:

- Bus driver daily report logs
- Fuel usage reports for the period January 14, 2008 through May 7, 2008
- Vendor payment history for the period July 1, 2006 through May 9, 2008
- Fuel invoices for the period July 1, 2006 through May 9, 2008
- Bills of lading or receiving reports
- Vehicle inventory log and fuel tank capacities
- Measuring stick calibrations
- Fuel tank measurement conversion chart — inches to gallons

We analyzed fuel usage records for the frequency and amount of fuel pumped. We also reviewed the District's comparison of diesel fuel inventory records to the physical inventory of fuel as of May 8, 2008.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

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