



Town of Granger

Fuel Procurement and Inventory Controls

Report of Examination

Period Covered:

January 1, 2010 — November 24, 2011

2011M-295



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2012

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as 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 operations and Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Granger, entitled Fuel Procurement and Inventory Controls. 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 local government 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 Town of Granger (Town) is located in Allegany County and has a population of approximately 500 residents. The Town provides various services to its residents, including road maintenance and improvements, snow removal, and general governmental support. The Town's 2011 budgeted expenditures total approximately \$500,000 for the general and highway funds.

The Town Board (Board), which is an elected legislative body, consists of the Town Supervisor (Supervisor) and four Council members: all are responsible for the general management and control of the Town's financial affairs. The Town also has an elected Highway Superintendent, who along with the Board, is responsible for overseeing all highway department operations including maintaining Town roads, bridges, and culverts, and providing snow removal services. The Highway Superintendent is also responsible for maintaining the Town's inventories of consumable products, such as gasoline and diesel fuel.

Objective

The objective of our audit was to examine the procurement and safeguarding of fuel inventories. Our audit addressed the following related question:

- Have Town officials purchased fuel in the most economical manner possible to maximize savings for Town residents, and are fuel inventories adequately safeguarded from potential loss or theft?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town 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: the Town Supervisor's records and reports, cash receipts and disbursements, purchasing, payroll and personal services, Town Clerk and Tax Collector operations, and Justice Court operations. 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 procurement and management of fuel inventories. Therefore, we examined internal controls over fuel procurement and inventories for the period January 1, 2010 through November 24, 2011.

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
Local Officials and
Corrective Action**

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

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. 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. We encourage the Town to make this plan available for public review in the Town Clerk's office.

Fuel

The Board should ensure that the Town obtains goods and services of the required quantity and quality at competitive prices in accordance with the General Municipal Law (GML) and the Town's purchasing policy. This provides reasonable assurance to residents that the Board is using Town resources economically. Furthermore, it is the Highway Superintendent's responsibility to protect highway assets, including purchased fuel, from the threat of loss, theft, or inappropriate use. This can be achieved by maintaining perpetual inventories and monitoring fuel usage.

Town officials have not purchased fuel in the most economical manner possible. We found that, had the Town used State contract awarded vendors, it could have saved approximately \$2,300, or 3 percent for the fuel purchases we reviewed. The Town did not realize these savings because, although the Board adopted a procurement policy, the Board did not ensure that the Highway Superintendent adhered to its requirements when purchasing fuel. In addition, the Highway Superintendent did not adequately safeguard the Town's fuel inventory, which increases the risk that fuel could be used for non-Town purposes.

Procurement

GML¹ and the Town's procurement policy require compliance with competitive bidding requirements when purchasing goods and commodities that exceed \$20,000 and public works contracts that exceed \$35,000, annually. Advertising for bids encourages competition among vendors and provides taxpayers with reasonable assurance that goods and services are procured in a prudent and economical manner, and helps to guard against favoritism, fraud and corruption. Exceptions from competitive bidding requirements include purchasing through a New York State Office of General Services (OGS) contract or through a county contract.

We reviewed the Town's fuel purchases from January 2010 through October 2011, totaling approximately \$80,000, and found that Town officials made purchases in excess of the bidding threshold without obtaining competitive bids. Further, there was no evidence that Town officials had used State or county bids. This happened because Town officials did not adhere to GML or the Board-adopted procurement policy when making fuel purchases.

¹ General Municipal Law section 103

Due to this weakness, we examined all fuel purchases made during the time frame noted above to determine if possible savings could have been achieved had the Town used a State contract vendor. We found that, had the Town used State contract awarded vendors, it could have saved approximately \$2,300 or 3 percent for these fuel purchases.

Inventory

The Highway Superintendent is responsible for ensuring that fuel supplies are adequately safeguarded and accounted for, and protected against the risk of loss, waste, and misuse. To accomplish this, perpetual inventory records should be maintained to account for the amount of fuel purchased, used and the balance remaining. The fuel balances in the perpetual records should be periodically reconciled to physical inventories, and material discrepancies investigated and resolved. It is also important for Town officials to review fuel usage reports to ensure that fuel is used only for Town purposes and that all fuel is accounted for.

The Town maintained two above-ground fuel storage tanks at its highway facility, a 1,000-gallon tank for diesel fuel and a 500-gallon tank for gasoline. From January 2010 through October 2011, the Town purchased approximately 25,000 gallons of diesel fuel² and 3,000 gallons of gasoline³ at a total cost of approximately \$80,000. The majority of the Town's highway equipment uses diesel fuel, while the Highway Superintendent's truck uses gasoline.

The Highway Superintendent did not ensure that fuel supplies were adequately safeguarded and accounted for. While he maintained fuel logs showing quantities of fuel delivered and dispensed, he did not maintain perpetual inventory records to account for the amount of fuel that should be in the tanks at any given time. In addition, the Town did not have a calibrated stick⁴ or electronic gauge that would enable the Superintendent to take a physical inventory of the fuel on hand. Consequently, he did not reconcile inventory records to the actual amount of fuel on hand. Due to these weaknesses, there is a risk that gasoline or diesel fuel could leak or be stolen and not be detected.

² The Town purchased approximately 14,000 gallons totaling \$35,500 in 2010, and 11,000 gallons totaling approximately \$36,000 in the first three quarters of 2011.

³ The Town purchased approximately 1,600 gallons totaling approximately \$4,000 in 2010 and, 1,400 gallons totaling approximately \$4,000 in the first three quarters of 2011.

⁴ During our fieldwork, the Highway Superintendent purchased a calibrated stick and indicated he planned to start a perpetual inventory system beginning in January 2012. A calibrated stick has gallon markings based on the size and shape of the tank used. When placed into the tank, the calibrated stick will measure the amount of fuel in the tank.

We compared fuel purchases with usage records from January 2010 through October 2011 to determine if fuel purchases were reasonable based on the recorded usage. Although we did not identify any significant discrepancies, this does not diminish the need for the Highway Superintendent to strengthen controls over the Town's fuel inventories to reduce the risk of misuse or theft.

Recommendations

1. The Board should ensure that competitive bids are solicited for fuel purchases, or use State or county contracts for these purchases.
2. The Highway Superintendent should maintain perpetual inventory records that identify the quantities of fuel purchased, dispensed, and on hand. These records should be reconciled to periodic physical inventories and any differences should be promptly investigated and resolved.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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



Town of Granger

Allegany County New York

Rodney K. Bennett, Supervisor

10275 County Road 15, Fillmore, NY 14735

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April 10, 2012

Robert E. Meller – Chief Examiner
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Division of Local Government & School Accountability
295 Main St., Room 1032
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Chief Examiner Meller;

This report is intended to be both the Town of Granger audit response and corrective action plan. If further response is required please contact Rodney Bennett at 585 567-8816.

The 2011-2012 OCS audit of the Town of Granger seemed to be both thorough and comprehensive. The records of the Town Supervisor, Clerk, Tax Collector, Superintendent of Highways and Justice were examined at length. The town officials were pleased to find that only a few problems were discovered, and they will be easily corrected. At this time we have a corrective action plan that is already partly implemented.

The supervisor was informed that town employee personnel files should contain a signed NYS Retirement declination for employees who do not belong to the retirement system. This was good advice and has been completed at this time.

Much of the audit report focuses on fuel procurement and inventory control. The town board did bid town fuel and gasoline purchasing for 2012. The audit found that we had not bid fuel purchases in 2010 and 2011. Town representatives were told we were receiving state bid price and we did much of the time, but not always. The discrepancy was during the winter when diesel fuel is blended with kerosene. The highway superintendent was shown a website by the auditor where he can check state bid prices at any time. This will be a great help in checking prices in the future.

While the audit did not find any major discrepancy in the comparison of fuel purchased to fuel used, the audit draft also recommends better fuel records and physical inventory. We have purchased a calibrated stick for each tank and the highway superintendent is checking actual levels each month. He has also developed a new program, which he has on his laptop, that with inputs of purchases, fuel use and actual tank readings finds any discrepancies automatically. He also has new fuel record sheets that are more descriptive, yet still easy to use.

The town board voted at our April 9, 2012 meeting to purchase new fuel pumps. Since we have been checking actual fuel levels with calibrated sticks we



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have been able to determine that the meters on our fuel pumps are not calibrated correctly and need considerable updating. The new pumps will allow us to meter fuel more accurately. At the same time the new pumps have an anti siphon component that will make theft more difficult and help prevent some types of fuel spills. In addition the highway superintendent has changed the wiring to the fuel pumps so that the power can be turned off from inside the shop without turning off the fire suppression system. The pumps are locked with padlocks and turning off the power also adds security.

Overall the audit did point out areas where we could make improvements in town record keeping and operations, which we are actively pursuing.

Sincerely,

Rodney K. Bennett
Supervisor - Town of Granger

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 Town 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: Town Supervisor's records and reports, cash receipts and disbursements, purchasing, payroll and personal services, Town Clerk and Tax Collector, and Justice Court operations. During the initial assessment, we interviewed Town officials, performed limited tests of transactions, and reviewed pertinent documents such as Town policies, Board minutes, and financial records and reports.

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 on the reported objective and scope by selecting for audit those areas most at risk. We selected fuel procurement and inventories for further audit testing.

To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We interviewed Town officials and documented and evaluated procedures and practices related to the procurement of fuel and fuel inventories.
- We reviewed the Town's procurement policy and evaluated its adequacy.
- We examined all fuel invoices for the period January 1, 2010 through October 31, 2011 and other supporting documentation to determine if the Town had complied with competitive bidding requirements. We also calculated the estimated cost savings the Town could have achieved had it purchased fuel from an OGS contract.
- We compared fuel purchases with usage records from January 2010 through October 2011 to determine if fuel purchases were reasonable based on the recorded usage for that period.

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.

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