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January 11, 2013

Richard C. Tupper, Supervisor
Members of the Town Board
Town of Cortlandville
Raymond G. Thorpe Municipal Building
3577 Terrace Rd.
Cortland, NY 13045

Report Number: 2012M-171

Dear Supervisor Tupper and Members of the Town Board:

One of the Office of the State Comptroller's primary objectives is to identify areas where local government officials can improve their operations and provide guidance and services that will assist them in making those improvements. Our goals are to develop and promote short-term and long-term strategies to enable and encourage local government officials to reduce costs, improve service delivery, and account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Town of Cortlandville (Town). The objective of our audit was to determine if the Town was acquiring fuel at the lowest reasonable cost. Within the scope of this audit, we examined the Town's acquisition of unleaded and diesel fuel for the period January 1, 2011, to June 21, 2012. Our audit addressed the following related question:

- Did the Board and Highway Superintendent ensure that the Town paid the lowest reasonable price for vehicle fuel?

We discussed the findings and recommendations with Town officials and considered their comments in preparing this report. The Town's response is attached to this report in Appendix A. Town officials generally agreed with our recommendations and indicated that they have taken, or plan to initiate, corrective action.

Summary of Findings

Although the Town paid the lowest price for fuel purchased from a national gas station chain, when compared to available State¹ and County contract prices, it failed to comply with General Municipal Law (GML) and the Board-adopted procurement policy by neglecting to bid fuel purchases totaling approximately \$184,850 from January 2011 through June 2012.

Background and Methodology

The Town is located just west of the center of Cortland County (County) and has a population of approximately 8,500. The City of Cortland, Village of McGraw, McGraw Central School District, Cortland City School District, Cortlandville Fire District, and a New York State Department of Transportation (DOT) regional outpost are all contained within the Town's boundaries.

The Town's Board of five elected officials, including the Supervisor, governs the Town. The Board is responsible for the general management and control of Town finances through the adoption of an annual budget. The Board's responsibilities include protecting Town assets and ensuring that services are being provided effectively at the lowest cost. The Town's Highway Superintendent is an elected official with responsibilities over the Town highway department, including daily operations and the procurement of goods and services.

The Town has more than 70 center-lane miles of Town road within the 49 square-mile Town boundaries. The Highway Department is responsible for the maintenance and repair of these roads. This is done with the use of a variety of vehicles and machines all fueled by diesel or unleaded gasoline. During our audit period the Town's fleet of vehicles, including all Town departments, used approximately 39,000 gallons of diesel and 21,000 gallons of unleaded gasoline. The total cost of this fuel usage was approximately \$184,850.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Audit Results

Diesel and gasoline fuel prices have risen over the last few years consuming more and more of municipalities' purchasing power. Thus, it is particularly important that municipalities pay the lowest possible price for fuel. The Board is responsible for ensuring that the Town obtains goods and services of the required quantity and quality at competitive prices in the most efficient manner, in accordance with the statutory requirements of General Municipal Law (GML) and the Town's purchasing policy.

¹ Although there is a fuel facility located at a New York State Department of Transportation (DOT) regional outpost across the street from the Town's highway facility, OGS rules do not allow municipalities to purchase fuel from DOT.

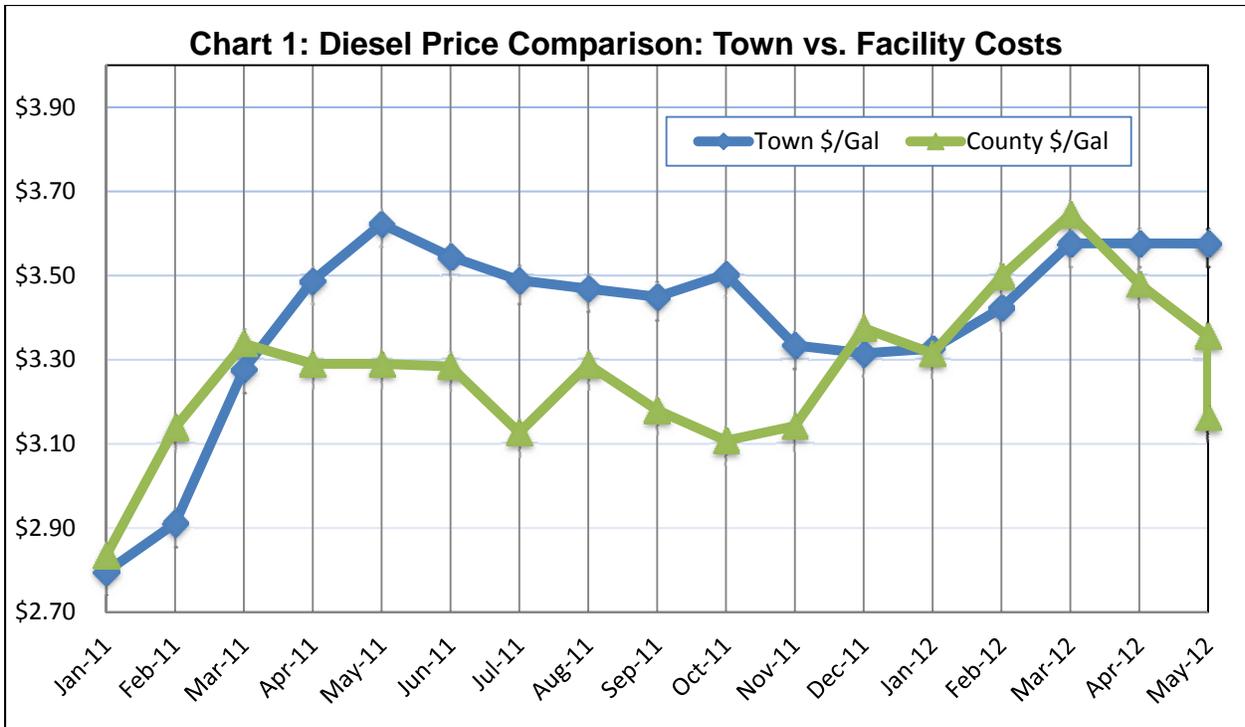
The Town receives a fleet discount by purchasing fuel from a national gas station chain. We reviewed the Town's fuel purchases from January 2011 through June 2012 totaling approximately \$184,850 and found that Town officials made purchases in excess of the bidding threshold without obtaining competitive bids. This happened because the Highway Superintendent did not adhere to GML or the Board-adopted procurement policy when making fuel purchases. However, although the Highway Superintendent did not seek competition for the Town's fuel purchases, we found that the Town paid the lowest price compared to available State and County contract prices.

New York State Office of General Services (OGS) – OGS seeks competition for fuel and gasoline purchases to enable local governments to purchase fuel in bulk at a common price, which is delivered to the local governments' fuel facilities. We randomly selected one day during each of the 18 months in our audit period and compared the prices for diesel and gasoline the Town paid on each day through the national chain to the prices for diesel and gasoline offered by OGS on those days and found that for 17 of the 18 days compared, the Town paid an average of \$0.09 less for diesel fuel and \$0.08 less for unleaded gasoline than the price offered through OGS. In addition, the OGS prices do not include the costs involved in fuel dispensing and storage and maintaining a recording system offered by the national chain the Town is using. Also, the Town would not be able to take advantage of the OGS fuel delivery option, because the Town has only one 500-gallon fuel tank which cannot completely manage the Town's diesel and gasoline fueling needs.

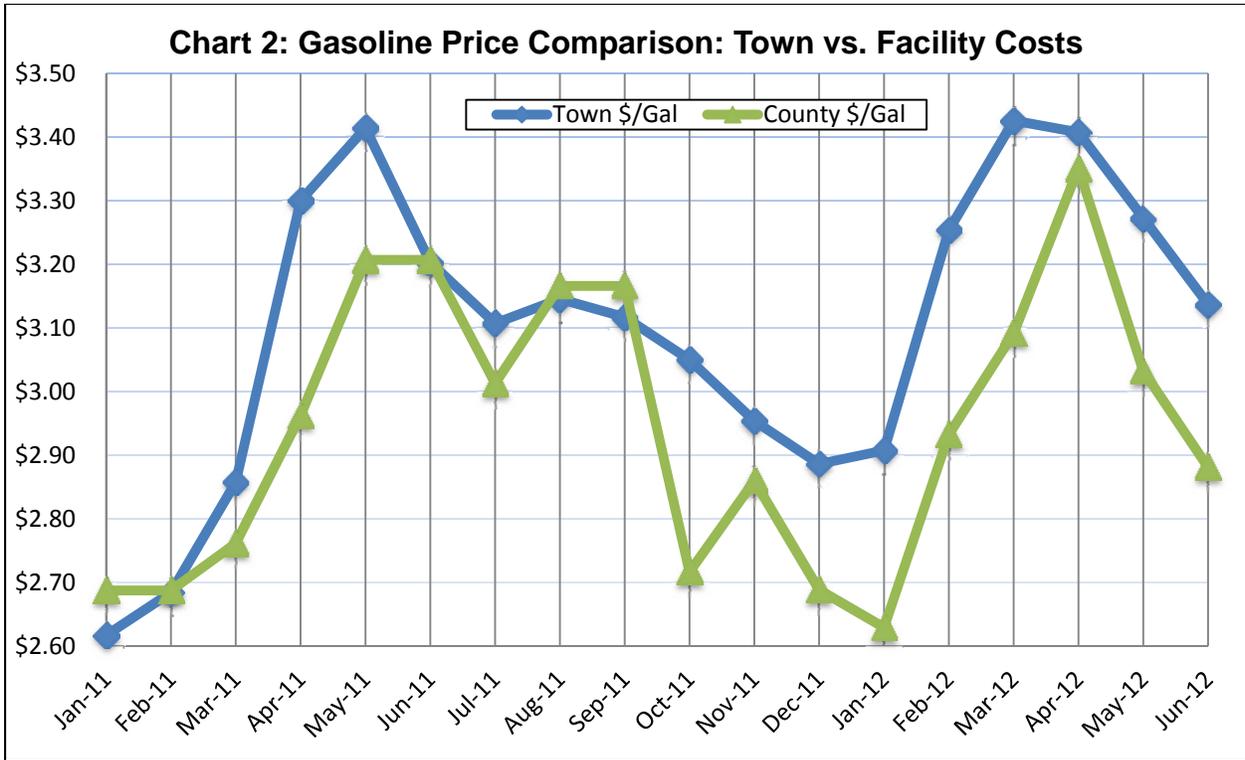
Cortland County – The County has competitively bid its procurement of diesel and gasoline fuel, and it maintains one fueling facility from which local governments may purchase fuel, which is located approximately six miles from the Town's highway facility. During our review of 18 transaction days during each of the 18 months of our audit period, we found that the County's fuel price was lower in 10 of 18 diesel purchases and 11 of 18 gasoline purchases² as compared to the price paid by the Town at the national chain. However, even with the price differential, it would not have been worthwhile for the Town to purchase fuel from the County. The low gas mileage that the Town's various pieces of machinery and highway equipment achieve, combined with the six-mile distance needed to travel for fuel, would have offset the lower price per gallon that the Town could have obtained by purchasing fuel from the County.

Fuel Facility – If the Town constructed and operated a fuel facility, it is possible that it could achieve reduced fuel costs after it has paid the financing-related costs to build the facility. The facility would provide the Town with the ability to bid bulk fuel purchases similar to what the County was able to achieve during 2011. As shown in Chart 1, the County's price per gallon, not including the \$0.09-per-gallon surcharge, was less than the price paid by the Town for 12 of the 18 price comparisons we made for diesel fuel.

² The County adds a \$0.09 surcharge per gallon to the diesel and gasoline fuel prices for non-County users. Even with this surcharge added to the County's fuel prices, the County's prices per gallon for diesel and gasoline were still lower than the prices paid by the Town at the national chain.



We found a similar trend with gasoline, as illustrated in Chart 2. Cortland County’s price per gallon, not including the \$0.09-per-gallon surcharge, for gasoline was less than the price paid by the Town for 13 of the 18 price comparisons.



However, these cost savings are not large enough to make it worthwhile to construct a fuel dispensing facility. We estimate the cost to build a new fuel facility at approximately \$260,000.³ With a potential cost savings of \$0.10 per gallon, the Town would need to use 2.6 million gallons of fuel to pay for the facility. And, at the Town's current rate of consumption, it would take more than 50 years to recoup the cost of the facility.

In addition, although the Town is buying fuel at competitive prices, it should seek bids for fuel purchases to make sure it is getting the best price available and to ensure that the current vendor is included in the bid process.

Recommendation

1. The Highway Superintendent should competitively bid for the procurement of fuel.

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 Council to make this plan available for public review in the Town Clerk's office.

If you have any further questions, please contact H. Todd Eames at (607) 721-8306.

Sincerely,

Steven J. Hancox
Deputy Comptroller
Office of the State Comptroller
Local Government and
School Accountability

³ Refer to Appendix B for further information on how we obtained this approximate cost for a new fuel facility.

APPENDIX A

RESPONSE FROM TOWN OFFICIALS

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



**TOWN OF CORTLANDVILLE
THE RAYMOND G. THORPE MUNICIPAL BUILDING**

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Supervisor
Richard C. Tupper

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John Folmer

Town Board Members
Ted Testa, Deputy Supervisor
Greg Leach
Ron Rocco
John Proud

Confidential Secretary
Patty O'Mara

January 7, 2013

Mr. Steven J. Hancox, Comptroller
NYS Office of the State Comptroller
110 State Street
Albany, NY 12236

Dear Mr. Hancox:

I have reviewed your Draft Report (2012M-171) on the Town of Cortlandville's fuel purchases from January 2011 to June 2012. Your report was very thorough and informative.

It was good that it indicated our cost savings on fuel compared to the State and County. It also indicated that a fuel facility was not a reasonable solution. After reading your report I realize that we are not in compliance with GML or our Procurement Policy. We will immediately go out to bid for fuel for 2013.

The Town of Cortlandville wishes to thank you for your efforts to save our tax payers money and put our fuel purchases in compliance with GML.

If you should have any questions, please feel free to contact me at the above number.

Sincerely,

Richard C. Tupper, Supervisor
Town of Cortlandville

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The Town of Cortlandville is an Equal Opportunity Employer and Provider. Discrimination is prohibited by Federal Law. Complaints of discrimination may be filed with USDA, Director, Office of Civil Rights, 1400 Independence Avenue, SW, Washington, 20250-9410 or call (800)795-3272 (Voice) or (202)720-6382 (TDD)

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

During this audit we examined the Town's procurement of fuel, as well as alternatives available. To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following:

- We interviewed Town officials about their practices of acquiring fuel for Town vehicles and equipment, including how they bid for the fuel.
- We interviewed the Town's Highway Superintendent about the fueling options available to the Town that included acquiring fuel from County- and State-run facilities.
- We interviewed County and State representatives about the feasibility of the Town purchasing fuel from their respective fuel facilities.
- We compiled the total amounts of diesel and unleaded fuel purchased for each month during our audit period.
- We randomly selected one day during each of the 18 months in our audit period and recorded the per-gallon price that the Town paid for diesel and unleaded fuel. We compared the Town's fueling transactions to the OGS prices available on those same days to determine which source was the lowest cost option. We compared the Town's fueling transactions to the County price offered to municipalities on the same days.
- We interviewed officials from three municipalities located within the Town boundaries (the McGraw Central School District, Village of McGraw, and the Cortlandville Fire District) to determine if they were willing to participate in a joint fuel facility. We compiled their fueling needs based on consumption during our audit period.
- We interviewed experts in the field of fuel facility construction to gain an understanding of equipment and space needs and developed a cost of construction based on recently completed facilities in New York. This cost includes a new aboveground tank with a 6,000-gallon diesel compartment and 2,000-gallon gasoline compartment and other equipment and associated costs to dispense and monitor fuel usage.
- We performed a cost analysis to determine whether the Town, McGraw Central School District, Village of McGraw, and Cortlandville Fire District would be able to achieve cost savings by constructing a joint fuel facility and purchasing diesel and unleaded fuel in bulk to store and use at the facility. We compared the prices that the Town paid for fuel for the 18 selected transactions to the prices that it could have paid if it acquired that fuel at a price similar to what the County was paying. We removed the \$0.09 surcharge that the County charged per gallon to compute these costs.

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.