



Village of Allegany

Vehicle Fuel

Report of Examination

Period Covered:

June 1, 2012 — September 13, 2013

2013M-308



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2014

Dear Village 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 Village 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 Village of Allegany, entitled Vehicle Fuel. 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 Village of Allegany (Village) is located in Cattaraugus County and has a population of approximately 1,800 residents.¹ The Village provides various services to its residents including street maintenance, snow removal, water and sewer and general government administration. The Village's 2013-14 budget appropriations totaled approximately \$1.7 million for the general (\$1 million), water (\$300,000) and sewer (\$400,000) funds.

The Village Board (Board) is the elected legislative body, which comprises the Mayor and four Trustees, which is responsible for the general management and control of the Village's financial affairs. The Board has appointed an individual who serves as the Superintendent of Public Works (Superintendent). The Superintendent, along with the Board, is responsible for overseeing all Department of Public Works (DPW) operations, including maintaining Village streets and providing water and sewer services. The Superintendent is also responsible for maintaining the Village's vehicle fuel inventories and ensuring fuel is purchased in accordance with Board approved procedures.

Objective

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

- Have Village officials purchased vehicle fuel in an economical manner, and are internal controls over the purchase, use and inventory of fuel appropriately designed and operating effectively?

Scope and

Methodology

We examined internal controls over fuel purchases for the period June 1, 2012 through September 13, 2013.

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 is 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 Village officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials generally agreed with our recommendations and indicated that they

¹ According to the 2010 Federal Census

have initiated 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 Board to make this plan available for public review in the Clerk-Treasurer's office.

Vehicle Fuel

The Board should ensure that the Village obtains goods and services of the required quantity and quality at competitive prices in accordance with the General Municipal Law (GML) and the Village's procurement policy. This provides reasonable assurance to residents that the Board is using Village resources economically. Furthermore, it is the responsibility of the Board and the Superintendent² to protect Village assets, including fuel inventory and fuel credit cards, from the threat of loss, theft or inappropriate use. This can be achieved by establishing written policies and procedures detailing where and when fuel will be purchased, who is authorized to do so and what information must be recorded when the transaction takes place. Written procedures should also require maintaining perpetual fuel inventory records to monitor fuel use.

We found that Village officials did not seek competition when purchasing vehicle fuel as required by GML and the Village's procurement policy. Had the Village used State contract vendors, it could have saved approximately \$1,100, or four percent, on the fuel purchases we reviewed. In addition, the Board authorized the payment of more than \$2,300 in gasoline purchases using fuel credit cards without receipts to document these transactions or identify the purchaser. Furthermore, officials did not maintain diesel fuel inventory records. As a result, there are increased risks that fuel will not be obtained at the lowest possible price or that unauthorized fuel use could occur and not be detected.

Cost Savings

The Village's procurement policy requires competitive bidding when purchasing goods and commodities that exceed \$10,000 annually.³ Further, soliciting 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 a County contract.⁴

² The Board should adopt policies and procedures for the purchase and safeguarding of fuel and fuel inventories. It is the Superintendent's responsibility to ensure these adopted policies and procedures are followed on a daily basis.

³ GML bid limits are currently \$20,000 for goods and services and \$35,000 for public works contracts.

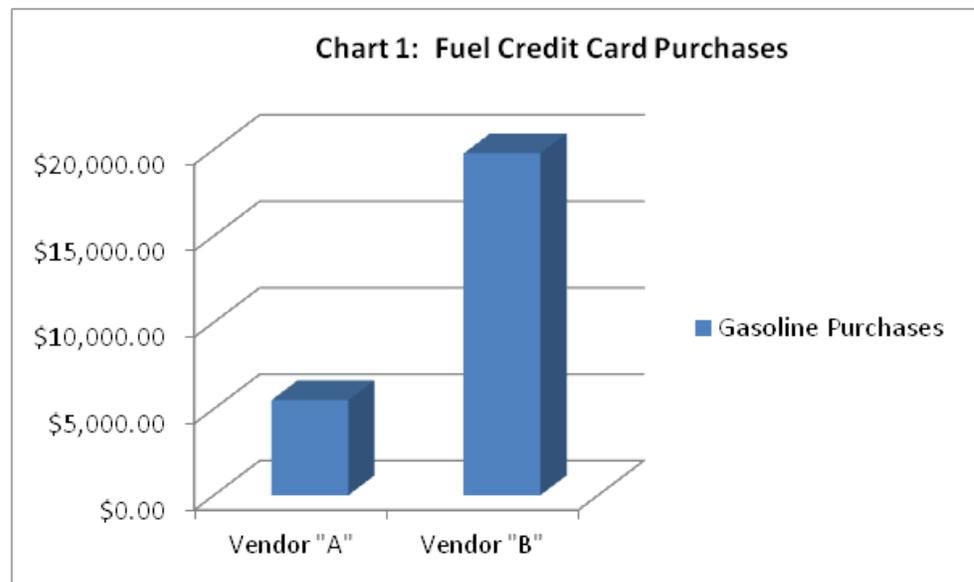
⁴ The Town of Allegany and the Allegany-Limestone Central School District purchase fuel from the Cattaraugus County Department of Public Works, whose fuel facility is located less than one mile outside the Village.

We reviewed the Village's fuel purchases from June 1, 2012 through September 13, 2013, totaling approximately \$32,000,⁵ and found that Village officials made purchases that exceeded the Village's bid limits without obtaining competitive bids or using State or County contracts. This occurred because Village officials did not adhere to the Board-adopted procurement policy when making fuel purchases. Had the Village used State contract awarded vendors, it could have saved approximately \$1,100 or 4 percent, for these fuel purchases. By seeking the lowest fuel prices available, Village officials can help ensure that the Village is not overpaying for fuel.

Fuel Credit Cards

Credit card policies and procedures that protect against potential unauthorized use should include the identification of the number of cards issued and the authorized users, the method for safeguarding the cards and the documentation required to support purchases.

Village officials failed to adopt comprehensive policies and procedures prior to obtaining fuel credit cards from two local gasoline stations (Vendor A and Vendor B). Officials entered into an agreement with Vendor A for the use of credit cards for each of the Village's vehicles. While internal controls were in place for purchases from Vendor A,⁶ there were no internal controls in place for purchases from Vendor B. As illustrated by Chart 1, the Village purchased the majority of its gasoline from Vendor B.



The Village had three credit cards from Vendor B that were identified by the department authorized to use each card (police, DPW or

⁵ \$25,000 in unleaded gasoline and \$7,000 in diesel fuel

⁶ Controls include vehicle-specific cards kept in the possession of Village employees, required driver identification numbers, required odometer readings, usage limits, vendor provided exception reports and individual vehicle fuel use analysis reports.

office). However, Village officials did not enter into an agreement with Vendor B for these credit cards and provided no documentation supporting their approval for issuing the cards. Additionally, there were no procedures governing credit card use or purchase approvals requirements. Furthermore, these credit cards were not secured by Village officials, but left in the vendor's custody, presumably for Village employees' convenience.

Village employees notified the vendor prior to fueling which card to use, signed each copy of the fuel receipt⁷ and indicated on the receipt which vehicle was being fueled. However, Village employees did not retain a copy of the receipt; instead, both receipt copies remained in the vendor's custody until the Village Clerk-Treasurer picked them up later each month. Further, employees were not required to record the odometer readings⁸ for the vehicles being fueled. Because Village employees did not retain custody of either the credit cards or the receipts anyone working for the vendor could fraudulently use the Village's credit card without detection.

Because of these deficiencies, we reviewed all fuel purchases paid for by the Village to Vendor B during our audit period, totaling approximately \$20,000. We found that 56, or approximately 12 percent, of the transactions totaling approximately \$2,300 had no receipt attached to the invoice that was presented and approved by the Board for payment. When credit cards are not secured by Village officials, employees do not obtain and remit receipts, and odometer readings are not required to be recorded for each vehicle at the time of purchase, Village officials cannot ensure that fuel purchased was used for authorized Village purposes.

Diesel Fuel Inventory

The Superintendent is responsible for ensuring that fuel supplies are adequately safeguarded and accounted for and protected against the risk of loss, waste and unauthorized use. To accomplish this, perpetual inventory records should be maintained to account for the amount of fuel purchased, the quantity dispensed and the balance remaining in the tank. The fuel balances in the perpetual records should be periodically reconciled to physical inventories, and material discrepancies should be investigated and resolved. It is also important for Village officials to review fuel records to determine if use is reasonable, ensure that all fuel can be accounted for and ensure that fuel is used only for Village purposes.

Village officials maintain one above-ground diesel fuel storage tank, with a capacity of 300 gallons. The tank is located in the Village

⁷ A merchant copy and a customer copy

⁸ Officials can use odometer readings to determine if the amount of fuel purchased was reasonable.

garage, but the pump is not locked. From June 1, 2013 through September 13, 2013, Village officials purchased approximately 2,000 gallons of diesel fuel at a total cost of approximately \$7,000 for the Village's three dump trucks and a street sweeper.

The Superintendent did not ensure that fuel supplies were adequately safeguarded and accounted for. Fuel logs showing when and how much fuel was dispensed and by whom were not maintained nor were perpetual inventory records maintained to account for the amount of fuel that should be in the storage tank at any given time. Due to these weaknesses, Village officials did not have the information necessary to evaluate departmental operations, and there is a risk that unauthorized use could occur and not be detected.

Recommendations

1. The Board should ensure that all fuel purchases are made in accordance with its adopted procurement policy.
2. The Board should adopt policies and procedures for issuing, using and documenting fuel credit card purchases that include provisions to ensure that all cards are kept in the custody of Village officials and that signed receipts are retained at the time of purchase.
3. The Superintendent should ensure that perpetual inventory records are maintained for fuel that track and record the amount of fuel purchased, dispensed and on hand. These records should be reconciled to periodic physical inventories and 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.



Village of Allegany



www.allegany.org

January 20, 2014

Mr. Robert Meller, Chief Examiner

Office of the State Comptroller

295 Main Street, Suite 1032

Buffalo, NY 14203-2510

Re: Village of Allegany Report of Examination 2013M-308

Dear Mr. Meller:

It was a pleasure meeting with your staff recently to discuss the preliminary findings of our present audit.

As a board, we strive to expend taxpayer money in the most cost effective and efficient manner. While the village has been proactive in locally obtaining the lowest cost of fuel, we overlooked the aggregate expense and have failed to fulfill the bidding process as per the New York State Law. We agree with your findings that our fuel procurement policy was found to be substandard.

We have begun to take corrective action. Our initial remedial procedure consists of the following:

- Securing all credit cards for any vendor whose billing system proves to be inferior to our reporting requirements,

- Maintaining our diesel tank inventory of fuel purchased and dispensed as well as keeping adequate documentation of equipment usage,
- Forming a committee to explore the development of future policies and procedures for fuel procurement which will assure the village taxpayers of economic efficiency.

Please be assured that the Village of Allegany will make every effort to comply with the findings of the audit. Your staff is to be commended for their accommodating manner and professionalism during their evaluation of our financial operations.

Sincerely,

Richard J. Lamberson

Mayor

cc: Rena Flynn, Clerk Treasurer

Dominic Papasergi, Superintendent of Public Works, Chief of Police

Janine Fodor, Attorney

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 Village 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: Village Clerk-Treasurer's records and reports, cash receipts and disbursements, purchasing, payroll and personal services and the code enforcement, tax collection and justice court operations. During the initial assessment, we interviewed Village officials, performed limited tests of transactions and reviewed pertinent documents such as Village 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 vehicle fuel purchasing and inventory for further audit testing.

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

- We calculated the estimated cost savings the Village could have achieved had it purchased fuel from an OGS contract.
- We interviewed Village officials and documented and evaluated procedures related to the procurement of vehicle fuel and to fuel inventory.
- We reviewed the Village's procurement policy and evaluated its adequacy.
- We examined all vehicle fuel invoices for our audit period and other supporting documentation to determine if the Village complied with competitive bidding requirements and the Village's procurement policy.
- We compared fuel purchases with specific vehicle fuel limits to determine if the amount of fuel purchased appeared reasonable for the each vehicle.
- We reviewed fuel receipts when available to determine if fuel appeared to be purchased by Village staff for Village equipment.

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

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