



Niagara Falls City School District Fuel Accountability

Report of Examination

Period Covered:

July 1, 2013 – May 22, 2015

2015M-178



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2015

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 Niagara Falls City School District, entitled Fuel Accountability. 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 New York State 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Niagara Falls City School District (District) is located in Niagara County. The District operates 11 schools and one administrative building and employs approximately 1,070 full- and part-time employees. Student enrollment is 7,100. The District is governed by an elected nine-member Board of Education (Board), which is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The District's budgeted appropriations for the 2014-15 fiscal year totaled \$126.4 million, which were funded primarily with State aid and real property taxes.

Scope and Objective

The objective of our audit was to evaluate the Board's oversight of fuel delivered to the transportation contractors' facilities for the period July 1, 2013 through May 22, 2015. Our audit addressed the following related question:

- Was fuel purchased by the District and delivered to transportation contractors' tanks properly accounted for and used for District purposes?

Audit Results

The District's main transportation contractor did not reimburse the District for all fuel used for non-District purposes.¹ Using current bus routing information,² we estimated the daily mileage using the contractor's routing software, mileage as documented by the contractor's drivers and an internet mapping product. We compared this estimate to the amount of fuel purchased by the District and delivered to the contractor's tanks and found that the main transportation contractor did not reimburse the District for all fuel used for non-District purposes. This occurred because District officials permitted the contractor to control the entire fuel accountability process. Consequently, the contractor ordered and used more fuel than was needed for District operations. Approximately 30 percent of the fuel purchased by the District and delivered to the contractor's tanks was not used for District transportation purposes and the contractor failed to disclose all of its non-District related fuel use to

¹ Another transportation contractor provides out-of-district bus services. For the two fiscal years reviewed, the transportation contractor prepared mileage and fuel allocation reports that were according to its transportation contract terms. Fuel use and mileage estimates were provided soon after the start of the school year and were used to determine the fuel allocation for the entire school year. The contractor did not include deadhead miles (no students on the bus) in its calculations.

² Bus routing schedules as of March 6, 2015

District officials. While the contractor reimbursed the District for the majority of this excess fuel, we estimate that the contractor still owes the District approximately \$74,000 for fuel used for non-District purposes from July 1, 2013 through March 31, 2015. There is no authority for the District to purchase fuel for resale to private parties for the private party's own use.

Furthermore, District officials did not verify fuel use calculations prepared by the contractor, which were not made according to contract terms, and ensure fuel was properly accounted for. Although an electronic fuel monitoring system was installed by the contractor in January 2013 at the District's request to record fuel transactions, it was not installed on all tanks and was generally ineffective. For example, from July 1, 2013 through March 31, 2015, we found that approximately 10,500 more gallons of fuel were dispensed from the unleaded tank than were recorded by the fuel monitoring system. An owner of the company stated that his employees sometimes turn off the fuel monitoring system and pump fuel that is not recorded. He stated that when the fuel monitoring system is turned off, the fuel dispensed generally goes into the contractor's two service vehicles or the two company cars. Until recently, the owner was unaware that his employees were overriding the system and he has directed them to discontinue this practice.

The District's transportation policy states that the District should "operate the transportation program both efficiently and economically." By not providing proper oversight and failing to act upon information available in 2011, District officials did not ensure that this objective was met. This resulted in fuel expenditures that were greater than necessary.

Comments of District Officials

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 findings and recommendations and indicated they are taking corrective action.

Introduction

Background

The Niagara Falls City School District (District) is located in Niagara County. The District operates 11 schools and one administrative building and employs approximately 1,070 full- and part-time employees. Student enrollment is 7,100. The District is governed by an elected nine-member Board of Education (Board), which is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The District's budgeted appropriations for the 2014-15 fiscal year totaled \$126.4 million, which were funded primarily with State aid and real property taxes.

The District contracts with two transportation companies for student bus services. One transportation contractor (the "main" transportation contractor) provides the majority of the District's bus services while the other contractor provides transportation services primarily for students attending education facilities outside of the District boundaries. During 2013-14,³ the District paid the two contractors approximately \$6.5 million for student bus transportation services. In addition, the District is required by contract to provide fuel to each transportation contractor. During 2013-14,³ the District paid \$541,113 for 175,158 gallons of diesel and unleaded fuel delivered to the fuel tanks⁴ of the main transportation contractor, and \$103,020 for 33,728 gallons of diesel fuel delivered to the fuel tank⁵ of the transportation contractor who provides transportation for students who attend out-of-district education facilities. The contractors order the fuel and the corresponding invoices are sent to the District by the fuel vendor for payment.⁶ The written transportation agreements indicate how much fuel the District should provide to the contractors.

Objective

The objective of our audit was to evaluate the Board's oversight of fuel delivered to the transportation contractors' facilities. Our audit addressed the following related question:

³ For 2014-15 (through March 31, 2015), the District has supplied 141,956 gallons of fuel costing \$341,088 to the main transportation contractor and 36,815 gallons of fuel costing \$81,693 to the out-of-district transportation contractor.

⁴ The main transportation contractor has two 6,000 gallon diesel fuel tanks and one 6,000 gallon unleaded fuel tank located on its property.

⁵ The transportation contractor that provides transportation to out-of-district educational facilities has one 10,000 gallon diesel fuel tank located on its property.

⁶ The propriety of the contractor placing orders for fuel with invoices sent directly to the District is not within the scope of this audit.

- Was fuel purchased by the District and delivered to transportation contractors' tanks properly accounted for and used for District purposes?

**Scope and
Methodology**

We examined the District's fuel accountability for the period July 1, 2013 through May 22, 2015.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**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 findings and recommendations and indicated they are taking 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 New York State 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 provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. 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 Accountability

The Board is responsible for establishing policies and procedures to safeguard and account for fuel purchased by the District. When the District's fuel is delivered, stored and dispensed at a transportation contractor's facility, the Board should establish adequate controls over the fuel supplies and properly monitor the contractor's activities. A good system of internal controls over fuel supplies includes preparing perpetual inventory records that identify quantities delivered, dispensed and on hand. Periodic reconciliations of the perpetual fuel inventory records to actual physical inventories should be performed to help identify fuel loss due to leaks or unauthorized use. District officials should periodically review fuel usage records maintained by the contractors to ensure that the records are adequate and fuel is used appropriately and is accounted for.

The District's main transportation contractor did not reimburse the District for all fuel used for non-District purposes.⁷ This occurred because District officials permitted the contractor to control the entire fuel accountability process. Consequently, the contractor ordered and used more fuel than was needed for District operations. Approximately 30 percent of the fuel purchased by the District and delivered to the contractor's tanks was not used for District transportation purposes and the contractor failed to disclose all of its non-District related fuel use to District officials. While the contractor reimbursed the District for the majority of this excess fuel, we estimate that the contractor still owes the District approximately \$74,000 for fuel used for non-District purposes from July 1, 2013 through March 31, 2015. There is no authority for the District to purchase fuel for resale to private parties for the private party's own use.

Furthermore, District officials did not verify fuel use calculations prepared by the contractor, which were not made according to contract terms, and ensure fuel was properly accounted for. Although an electronic fuel monitoring system was installed by the contractor in January 2013 at the District's request to record fuel transactions, it was not installed on all tanks and was generally ineffective.

⁷ Another transportation contractor provides out-of-district bus services. For the two fiscal years reviewed, the transportation contractor prepared mileage and fuel allocation reports that were according to its transportation contract terms. Fuel use and mileage estimates were provided soon after the start of the school year and were used to determine the fuel allocation for the entire school year. The contractor did not include deadhead miles (no students on the bus) in its calculations.

Main Transportation Contractor

The main transportation contractor operates a fleet of 79 buses and 14 vans to transport approximately 4,650 students on a daily basis.⁸ The contractor also owns two service vehicles and two company cars⁹ and engages in other business activities.¹⁰ All fuel delivered to the contractor's tanks and dispensed into vehicles is purchased by the District. The contractor does not purchase or obtain fuel from any other source. The District owns 22 vehicles¹¹ that use fuel from the tanks located at the transportation contractor's facility.

The agreement¹² between the District and the contractor states that the District will provide fuel to the contractor for transporting District students. To determine how much fuel should be provided to the contractor for District transportation, the contractor is required to provide the District with a quarterly report showing the number of buses and vans used for student transportation and the exact miles traveled for District transportation. Based on this report, the District can calculate the gallons of fuel that should have been allocated to the contractor for the previous quarter.¹³ If more fuel is delivered to the contractor's tanks than the calculated allocation, the agreement requires the contractor to reimburse the District for the value of the excess fuel. The contractor shall make payment within 30 days from receipt of a statement from the District as to the amount of excess fuel used by contractor.

The contractor should not use fuel purchased by the District for its other business activities and service vehicles. Therefore, the fuel use calculation should result in fuel purchased by the District being used only for District purposes. The contractor did not provide the required quarterly mileage reports to the District nor did District officials request these reports from the contractor. Consequently, the District did not calculate if any excess amount of fuel was purchased by the District and used by the transportation contractor for non-District purposes.

Using current bus routing information,¹⁴ we estimated the amount of fuel the contractor used for District purposes for the period July 1, 2013

⁸ The main contractor also provides transportation services for after school activities, sporting events, field trips and summer school.

⁹ The company cars are used by the owners of the transportation company.

¹⁰ The contractor provides transportation services for two local private schools, Niagara County, senior citizens and miscellaneous other transportation services.

¹¹ Eighteen vehicles use unleaded fuel and four vehicles use diesel fuel.

¹² The most recent contract extension covered the period July 1, 2010 through June 30, 2015.

¹³ Fuel use is calculated by dividing the total number of miles traveled during the quarter by a predetermined miles per gallon factor for the vehicles in use. The transportation agreement sets the miles per gallon factor at four miles/gallon for 66/44 passenger buses and eight miles/gallon for vans.

¹⁴ Bus routing schedules as of March 6, 2015

through March 31, 2015.¹⁵ We estimated the daily mileage using the contractor’s routing software, mileage as documented by the contractor’s drivers and an internet mapping product. We compared this estimate to the amount of fuel purchased by the District and delivered to the contractor’s tanks and found that the main transportation contractor did not reimburse the District for all fuel used for non-District purposes. We estimate that the contractor owes the District \$74,040 for additional fuel use from July 1, 2013 through March 31, 2015, as indicated in Figure 1:

Figure 1: Fuel Accountability - Main Transportation Contractor

Category	Time Period		Totals
	July 1, 2013 – June 30, 2014	July 1, 2014 – March 31, 2015	
Total Beginning Fuel Inventory (Three Tanks)	11,674 gal	9,938 gal	21,612 gal
Add: Total District Fuel Purchases	175,158 gal	141,956 gal	317,114 gal
Less: Ending Fuel Inventory (Three Tanks)	9,938 gal	15,054 gal	24,992 gal
Available Fuel Supplies	176,894 gal	136,840 gal	313,734 gal
Fuel Dispensed From The Contractor’s Tanks ^a	177,798 gal	137,412 gal	315,210 gal
Less: Fuel Dispensed Into District Vehicles	13,406 gal	12,258 gal	25,664 gal
Fuel Used By The Contractor	164,392 gal	125,154 gal	289,546 gal
Less: Estimated Fuel Used By The Contractor To Transport District Students ^b	118,450 gal	83,359 gal	201,809 gal
Estimated Excess Fuel Used By The Contractor For Non-District Purposes	45,942 gal	41,795 gal	87,737 gal
Percentage Of Total Available Fuel Supplies That Was Not Used For District Purposes	26%	30.5%	28%
Estimated Value Of Fuel Used By The Contractor For Non-District Purposes ^c	\$142,888	\$100,156	\$243,044
Reimbursements To The District By The Contractor As Of March 31, 2015	\$102,624	\$66,380	\$169,004
Amount Owed To The District As Of March 31, 2015	\$40,264	\$33,776	\$74,040

^a The amount of fuel dispensed from the three tanks was obtained from a 10-day reconciliation worksheet prepared by an employee of the contractor. This worksheet documents physical stick measurements on a daily basis. Fuel dispensed each day is the difference between the previous day’s stick measurement and the current day’s stick measurement. Variances between the amount listed in “Available Fuel Supplies” and “Fuel Dispensed from Contractor’s Tanks” may be due to inconsistencies when reading the stick measurement and converting the difference in the stick readings to gallons.

^b Route mileage as of March 6, 2015 and a fuel consumption rate of four miles/gallon

^c Calculated using average District fuel costs per gallon

¹⁵ To estimate how many gallons of fuel were used by the contractor for District purposes, we calculated the number of miles traveled by the contractor’s vehicles for student transportation from July 1, 2013 through March 31, 2015. We identified all services provided by the contractor and estimated the total daily miles traveled for each of these services. This total included mileage from regular daily school bus routes, after-school transportation, midday transportation, sports events, field trips and summer school. We added 150 miles per day to our calculation for any miscellaneous travel that may not have been accounted for in the other categories. We used a consumption factor of four miles/gallon for all of our calculations. When calculating the allowable mileage for fuel allocation purposes, we applied commonly accepted standards used by other school districts that outsource their student school bus services. Mileage used for fuel allocation calculations generally only includes live miles, or miles traveled when there are students on the bus. With few exceptions, miles traveled when there are no students on the bus (deadhead miles) are generally the responsibility of the transportation vendor.

Approximately 30 percent of the fuel purchased by the District and delivered to the contractor's tanks was not used for District transportation purposes. The contractor reimbursed the District for the majority of this excess fuel, but because the District supplies all of the fuel, the contractor appears to be benefitting from using tax exempt fuel for its private use and other business activities.

District officials permitted the contractor to use its own reimbursement method and control the entire fuel accountability process. The contractor ordered the fuel, maintained the fuel records, prepared the fuel use calculations and determined the timing of any reimbursements due to the District for non-District fuel use. We found no evidence that District officials verified that the contractor's records and calculations were reasonable and included all non-District related fuel use or that reimbursements were received in a timely manner. Because the District did not have a process in place to verify if all expected reimbursements were received, we found that not all expected payments were made and payments were received late. For example, a payment for fuel use during February 2014 was not paid by the contractor until March 2015.

Fuel Reimbursement Method

The contractor's reimbursement method involved identifying the services that it determined were unrelated to District transportation and then calculating the amount of fuel used by these unrelated services. The contractor identified three business activities that were unrelated to District transportation services: student bus service for two private schools and public transportation services provided to Niagara County.

During July 1, 2013 through March 31, 2015, the contractor reimbursed the District approximately \$169,000 for fuel use related to these three other business activities. However, this is well below our estimate of \$243,000 that the contractor should have paid the District if it had followed the fuel allocation requirements in the contract agreement.

The contractor failed to disclose all of its non-District related services and fuel use to District officials. We identified several other transportation services that were provided by the contractor but were not reported to the District. Using the fuel reimbursement method developed by the contractor, the contractor should have reimbursed the District for the following fuel use:

- Every Tuesday, the contractor transported senior citizens to a local grocery store. During the 2014 calendar year, we identified 52 instances where the contractor provided this service.

- The contractor occasionally provided additional transportation services to the two private schools. During 2014, we identified 24 field trips for these two schools for which the contractor provided transportation. These are the same private schools that the transportation contractor reported to the District for fuel reimbursement purposes. However, field trip mileage was not included in the reimbursement calculations.
- The contractor provided transportation services to other local groups and organizations. During 2014, we identified 17 miscellaneous transportation services to various local organizations. None of these services were reported to the District for fuel reimbursement purposes.
- Unleaded fuel was dispensed into two service vehicles and two company cars. The contractor did not document or log the amount of fuel used by these four vehicles¹⁶ so it is unclear how much fuel was used. Vehicles that are not used for providing District student transportation services are the responsibility of the contractor.

Fuel Monitoring System

An electronic fuel monitoring system installed by the contractor in January 2013, at the District's request, was ineffective. The fuel monitoring system is designed to provide fuel transaction data by the vehicle and by the individual who dispensed the fuel. We found that the 22 District-owned vehicles were set-up in this manner, as every vehicle and authorized District employee had a unique identification number.¹⁷ However, the contractor did not establish this same level of control for its vehicles. As a result, fuel use by the contractor could only be identified by fuel type (diesel or unleaded) and by the individual who dispensed the fuel. We could not determine which vehicles were fueled as the contractor did not assign its vehicles with a unique identification number.

Although the contractor has three fuel tanks¹⁸ located at its facility,¹⁹ only two of the tanks are connected to the fuel monitoring system. The third tank (a diesel fuel tank) is not connected and any fuel dispensed from this tank is not recorded by the fuel monitoring system. There was no evidence that the contractor required employees to use an alternative method²⁰ to track fuel pumped from this third tank.

¹⁶ The contractor estimated that each of the two service vehicles travel approximately 15,000 miles per year. There was no fuel use estimate provided for the two company cars.

¹⁷ On a monthly basis, the contractor provides the District with a report showing all fuel transactions for each of the District's 22 vehicles and the user identifications of the employees who dispensed the fuel.

¹⁸ Two diesel fuel tanks and one unleaded fuel tank

¹⁹ Most of the property is enclosed by a fence, but the contractor does not use security cameras to monitor activity around the fuel pumps.

²⁰ The contractor did not keep a log of fuel dispensed from this tank.

Although the fuel monitoring system has the capability to track fuel inventory, this feature was not activated by the contractor. The only way for the contractor to determine how much fuel is in the tanks is by taking a physical stick measurement. In addition, because fuel deliveries are not recorded in the system, the contractor is unable to compare book inventory to physical inventory.

The contractor determines how much fuel is in each tank by taking a stick measurement approximately five times per week.²¹ Using this information, we compared gallons of fuel dispensed according to physical stick measurements with gallons of fuel dispensed according to fuel transaction records from the fuel monitoring system for the two tanks that are connected to the system. We found significant discrepancies with the amount of fuel dispensed from the unleaded tank.²²

From July 1, 2013 through March 31, 2015, approximately 10,500 more gallons of fuel was dispensed from the unleaded tank than was recorded by the fuel monitoring system. An owner of the company stated that his employees sometimes turn off the fuel monitoring system and pump fuel that is not recorded. He stated that when the fuel monitoring system is turned off, the fuel dispensed generally goes into the contractor's two service vehicles or the two company cars. He said that, until recently, he was unaware that his employees were overriding the system and has directed them to discontinue this practice. Both the ability to circumvent the monitoring system and actually circumventing the fuel monitoring system are serious breaches of the integrity of the system's controls and gives the impression that there is an attempt to improperly obtain fuel.

District Oversight

The District's internal auditors conducted an audit of fuel accountability in 2011. The report included several recommendations for consideration by District officials, including, among other things, that the District should require the contractor to provide the District with the quarterly fuel use reports. If District officials had acted upon these recommendations in a timely manner, they may have corrected some of the issues we identified in this report.

The District's transportation policy states that the District should "operate the transportation program both efficiently and economically." By not providing proper oversight and failing to act upon information available in 2011, District officials did not ensure that this objective was met. This resulted in fuel expenditures that

²¹ Tank stick measurements are not taken on the weekends or on holidays.

²² The number of gallons dispensed from the diesel tank that was connected to the fuel monitoring system was fairly close when comparing the transaction reports with the stick measurement.

were greater than necessary. Because fuel reimbursements have been handled this way prior to the 2013-14 fiscal year, the contractor may not have sufficiently reimbursed the District for fuel use in prior years as well.

Recommendations

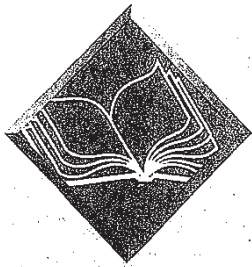
The Board and District officials should:

1. Establish adequate controls over the District's fuel supplies, monitor the contractor's activities and periodically review the contractor's fuel usage records to ensure that fuel is used appropriately and is accounted for.
2. Require the main transportation contractor to provide the quarterly mileage reports to the District.
3. Ensure that the electronic fuel monitoring system is operating effectively and that the contractor's employees cannot override the system.
4. Ensure that fuel purchased by the District is used solely for District purposes.
5. Ensure that future transportation contracts do not include provisions which allow contractors to use fuel purchased by the District for non-District purposes.
6. Seek reimbursement from the contractor for an additional \$74,040 for excess fuel use for the period of July 1, 2013 through March 31, 2015.
7. Contact the New York State Department of Taxation and Finance for guidance concerning the contractor's use of fuel purchased under District purchase contracts for non-District business activities.
8. Review fuel use and reimbursements prior to 2013-14 to determine if the contractor has appropriately reimbursed the District for fuel use in prior years.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



School District of the City of Niagara Falls, New York

630 66th Street ♦ Niagara Falls, NY 14304 ♦ (716) 286-4211 ♦ Fax: (716) 286-4283

November 4, 2015

Mr. Jeffrey D. Mazula
Chief Examiner
Office of the State Comptroller
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, N.Y. 14203-2510

Dear Mr. Mazula:

The Board of Education of the Niagara Falls City School District acknowledges receipt of the Office of State Comptroller (OSC) Report of Examination of Fuel Accountability for the Niagara Falls City School District. The District is appreciative of the review made by the OSC and of the explanation by OSC representatives of the matters reviewed. The Report will assist District officials in managing the District more efficiently and effectively. The review and explanation by OSC representatives will assist the District in responding to the items reviewed. We respectfully request that this response also serve as the District's Corrective Action Plan (CAP). The Board will review the CAP after it receives the final report from the OSC. As this is both a response and the CAP, our responses to each recommendation is listed below:

Recommendation number 1:

The Board and District officials should establish adequate controls over the District's fuel supplies, monitor the contractor's activities, and periodically review the contractor's fuel usage records to ensure that fuel is used appropriately and is accounted for.

The District agrees with the Comptroller's finding that control over the use of District provided fuel was not as thorough as befits the level of oversight required to manage the significant amount of resources involved. While the District began to implement new controls prior to the Comptroller's examination, the District will use the Comptroller's report and findings to increase the level of control required and recommended by the Comptroller.

In regard to fuel supplies the District will now:

1. Receive ten day reconciliation worksheets from the contractor that lists daily inventory levels, fuel delivered in gallons, the amount of gallons pumped from the respective tank, the resultant book inventory, the ending stick measured inventory, and resultant variation between book and physical inventories. These records have already started to flow to the Administrator for School Business Services.
2. A District representative has been assigned to take stick measurements of each tank on the contractor's property and compare those readings with those provided by the contractor. This assignment has already been delegated and implemented. These measurements will take place on



unannounced dates and will occur at least twice a month. The District representative will let the contractor know when he/she arrives on site to take measurements. These measurements will be logged and held in the possession of the District. This representative is a member of the District Maintenance staff and will report his/her findings to the Director of Facilities, as well as to the Administrator for School Business Services.

3. Receive on a quarterly basis (the 30th of March, June, September and December) the Fuel Breakdown for gallons received and used by the contractor. This report also defines those gallons that are used by the contractor for non-District use and defines the amounts owed to the District for that use. This report will be used by the Administrator for School Business Services to reconcile the report information to the information received from the ten day reconciliation worksheet provided by the contractor. Receipts will be compared to actual District purchasing records and the mileage presented will be verified by the District Transportation Coordinator for reasonableness.

All of the above steps have been implemented and the third quarter (July 1 through September 30, 2015) has already been reconciled by the Administrator for School Business Services, presented to District officials, and presented and discussed with the Contractor.

Recommendation number 2:

Require the main transportation contractor to provide the quarterly mileage reports to the District.

The District agrees with the Comptroller's finding and recommendation, and has initiated procedures to ensure the receipt of the mileage reports.

The Deputy Superintendent, the Administrator for School Business Services, as well as the District Transportation Coordinator, are now receiving quarterly mileage reports. The report for the third quarter of 2015 has already been received by the District and is being used to reconcile fuel usage.

Recommendation number 3:

Ensure that the electronic fuel monitoring system is operating effectively and that the contractor's employees cannot override the system.

The District agrees with the Comptroller's finding and has taken steps to ensure the security of the fuel monitoring system. The District has initiated the following:

1. District personnel will physically measure the contractor's fuel tanks and District officials will compare these measurements with data and materials provided by the contractor. Discrepancies will be immediately investigated and, if discrepancies persist, the District will increase the number of measurements during the month.

2. The District is requiring that the contractor install the fuel monitoring system on the remaining pump in the contractor's yard. The system currently is installed on two of the three pumps located on the contractor's property.

3. The District has recommended to the contractor that the contractor install cameras to monitor activity at each of the contractor's fuel pumps.

4. The District has recommended to the contractor that the keys required to override the fuel monitoring system be locked in a secure location and access be limited to the owners of the company.

Action Item Number One has already been initiated and Action Items Two through Four have been reviewed with the contractor on October 28, 2015 through a meeting with the contractor that included the Superintendent, Deputy Superintendent, and the Administrator for School Business Services.

Recommendation number 4:

Ensure that fuel purchased by the District is used solely for District Purposes.

While the District agrees with the foundational premise of this recommendation, the practicality of it makes it difficult to comply. The contractor is limited by its facilities and the number of tanks available to store fuel for District use. There is not enough physical capacity for the contractor to separate District fuel from any other. The District will continue to work closely with the contractor to maintain adequate inventory information to ensure that the District is compensated for the fuel the contractor uses in other endeavors.

As stated in the District response to Recommendation Number One, the District will be reconciling fuel usage and spot checking tank readings in order to verify that all usage of fuel is accounted for correctly. The District, as stated in Response to Recommendation Number Three, has insisted that the contractor install a fuel monitoring device on its third pump.

This initiative is being led by the Superintendent and will be monitored by the Deputy Superintendent as well as by the Administrator for School Business Services. The District expects this task to be completed by November 15, 2015.

Recommendation number 5:

Ensure that future transportation contracts do not include provisions which allow contractors to use fuel purchased by the District for non-District purposes.

While the District agrees that this recommendation will ensure the appropriate use of its fuel, the current contract between the contractor and District has just begun a new five year period.

The District will strongly consider the recommendation when pursuing a new agreement. It should be noted that the District and contractor have enjoyed a period of mutual benefit,

notwithstanding the findings of this audit, and that the negotiation of an eventual successor agreement could lead to significantly increased costs for transportation. The District has enjoyed a consistency of costs by extending agreements at the Consumer Price Index (CPI) rates. The concern is that opening up the contract to bidding will lead to limited choice and higher costs. The District recently experienced this phenomenon when it bid the District out of district transportation contract for the current year. There was only one bid submitted and costs increased more than twenty-four percent.

Recommendation number 6:

Seek reimbursement from the contractor for an additional \$74,040 for excess fuel use for the period July 1, 2013 through March 31, 2015.

The District agrees with the Comptroller's finding that all fuel used for non-District purposes has not been reimbursed to the District.

The District, led by the Deputy Superintendent and the Administrator for School Business Services, are reviewing the findings of the Comptroller with the contractor with the intent to recoup funds owed to the District.

It is expected that this review will be completed by the 15th of November, 2015.

Recommendation number 7:

Contact the New York State Department of Taxation and Finance for guidance concerning the contractor's use of fuel purchased under District purchase contracts for non-District business activities.

The District agrees with this recommendation. The Administrator for School Business Services has obtained Publication 765 *Sales and Fuel Excise Tax Information for Properly Appointed Agents of New York Governmental Entities* and has shared this publication with the contractor at a meeting that occurred on October 28, 2015.

Recommendation number 8:

Review fuel use and reimbursements prior to 2013-14 to determine if the contractor has appropriately reimbursed the District for fuel use.

The District agrees with this recommendation based on the Comptroller's findings.

The District will work with the contractor to look at prior periods to determine the usage of and the reimbursement for any fuel used for non-District purposes. It should be noted that the current fuel monitoring system has just recently been installed at the insistence of the District and that prior to this installation the contractor did not have an electronic monitoring system in place which will make reconciliation difficult.

Mr. Jeffrey D. Mazula
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November 4, 2015

The District, led by the Superintendent, Deputy Superintendent, and the Administrator for School Business Services, has begun investigating with the cooperation of the contractor those periods before the current audit period. The expectation of potential findings is expected over the course of the next fiscal year.

Respectfully submitted,

Cynthia A. Bianco
Superintendent of Schools

cc: Board members

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the District's oversight over fuel use for the period July 1, 2013 through May 22, 2015. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed District officials and the main transportation contractor's employees.
- We reviewed vendor activity reports, invoices, transportation agreements, transportation policies and an internal audit report on the pupil transportation contract dated September 2011.
- We determined the average fuel consumption rate for 66/44 passenger diesel buses from the American School Bus Council.
- We referenced bid specifications for school bus transportation services from three New York State school districts in order to identify commonly used practices for calculating fuel allocations.
- We identified the amount of fuel purchased by the District by reviewing invoices from the vendors that supply the District's fuel.
- We examined fuel reimbursement payments and associated calculations made by the contractor. We examined the contractor's mileage calculations to determine if route mileage used for the two private schools appeared reasonable.
- We determined the number of miles traveled for our fuel allocation calculation as follows:
 - o We determined the daily route mileage for regular bus transportation services based upon routing reports dated March 6, 2015 that were produced by the contractor's routing software.
 - o We determined the mileage for sporting events and field trips by documenting these services for a two-month period. We then identified the approximate miles traveled for each event by using an internet mapping product. Using the two-month period as our basis, we calculated the average miles traveled per day for these two services.
 - o We determined the typical after-school and midday transportation miles by requesting that the drivers of these routes document their beginning and ending odometer readings for a four-day period.
 - o We determined the summer school miles traveled by entering each stop listed on the route into an internet mapping product. We then multiplied the daily mileage by the number of days summer school was in session.
 - o We estimated transition miles for bus routes that include more than one school on the morning and afternoon routes.

- o We added 150 miles per day to our calculations to account for transportation that may not have been included in the other categories.
- o We used a fuel consumption rate of four miles/gallon for all calculations even though the District uses 14 vans. The contract agreement allows for eight miles/gallon for vans.
- o We identified the number of days school was in session based upon the District's school calendar, reported snow days and make-up days during 2013-14 and 2014-15.
- o Except for transition miles, we only used live miles in our calculations.
- o We reviewed our methodology with the contractor's representatives to ensure that our methodology seemed reasonable and that we were including all pertinent mileage.
- We estimated the value of the excess fuel used by the contractor based upon the average price per gallon paid by the District as listed on fuel invoices.
- We identified non-District related transportation services by reviewing the contractor's book that documents other transportation services.

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.

APPENDIX C

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