



Town of Grand Island

Internal Controls Over Fuel Purchases

Report of Examination

Period Covered:

May 9, 2011 — June 14, 2013

2013M-182



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2013

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 Grand Island, entitled Internal Controls Over Fuel Purchases. 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 Grand Island (Town) is located in Erie County and has a population of approximately 20,400 residents. The Town, located on a 28.5 square mile island, provides various services to its residents, including street maintenance, water, sewer, parks and recreation, police protection, fire protection, and general government support. For the 2013 fiscal year, budgeted appropriations totaled approximately \$20.2 million. Expenditures are funded primarily by property taxes, sales taxes, State aid, and user fees.

The Town is governed by a five-member elected Board (Board) comprised of a Supervisor and four Council members. The Board is responsible for the general management and control of the Town's financial affairs and for the safeguarding of Town assets. The Town owns approximately 100 vehicles, trucks, and various pieces of equipment that use either unleaded gasoline or diesel fuel. The Town obtains all of its fuel from a gas station located in close proximity to the highway garage and Town hall. In 2012, the Town purchased 46,140 gallons of fuel totaling \$142,053.¹

Objective

The objective of our audit was to evaluate internal controls over the purchase of fuel and addressed the following related question:

- Has the Town established adequate controls over fuel purchases?

Scope and Methodology

We examined fuel records and transactions for the period January 1, 2012, through June 14, 2013. We expanded our scope back to May 9, 2011, after we identified certain questionable purchases.

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 findings and recommendations and indicated they have taken corrective action.

¹ Purchases included 29,565 gallons of unleaded gasoline (\$92,937) and 16,575 gallons of diesel fuel (\$49,116).

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 Town Clerk's office.

Internal Controls Over Fuel Purchases

The Board is responsible for establishing policies and procedures to provide reasonable assurance that fuel is purchased only by authorized personnel and will be used exclusively for Town purposes. As such, the Town's fuel credit card should only be accessed and used by current Town employees who are required to purchase fuel for use in Town vehicles and equipment. Town officials should also regularly review fuel transactions for propriety.

The Board did not establish procedures to help ensure that fuel was dispensed only into Town vehicles and equipment by authorized employees. Furthermore, there were no procedures in place to regularly monitor fuel transactions for reasonableness and ensure that only authorized employees were provided with a user ID. As a result, the Town paid \$4,991 for fuel that was obtained by a former employee and used for other than Town purposes.

Town employees who are authorized to purchase fuel are assigned a six digit user ID code and provided access to a key for a lockbox containing a Town credit card with which to pay for fuel from a local gas station. Lockbox keys are attached to the key ring for the Town vehicle being fueled; certain employees also have a copy of the key. We found that Town officials do not routinely conduct an inventory of lockbox keys. Moreover, since these keys can be copied without restriction, an inventory of issued keys may not identify all of the keys that exist.

When obtaining fuel at the gas station, Town employees are required to enter their user ID and the vehicle's current odometer reading. When we reviewed fueling transaction reports, we found that the odometer reading was of little value as it was frequently left blank or the amount appeared to be erroneous since the same sequence of numbers were recorded repeatedly by certain users. In addition, the vehicle being fueled was not identified on the transaction report. While this data option is available, the gas station's system only allows the entry of two fields of data.² If employees had the ability to and did enter all three fields of data accurately, Town officials could perform a mileage reasonability test for each vehicle fueled.

² Town officials have the option of choosing only two input fields from the following – user ID, odometer reading, or vehicle ID. Officials selected user ID and odometer reading.

Officials did not adequately make use of available fuel transaction data and implement sufficient controls to ensure that fuel was dispensed for only Town purposes. The Town receives an invoice from a credit card vendor which details all fuel transactions for the previous month, including the date and time fuel was pumped, user ID, user name, number of gallons, type of fuel, and cost. In addition, officials have access to current and historical fuel transaction data through the credit card vendor's website. Using this data, a clerk prepares a report which sorts fuel transaction data by Town department and user name. However, department supervisors did not review this information to verify that the individuals on this list were current employees or whether the fuel was appropriately obtained.

We examined a list of authorized users³ and identified 13 individuals with active user IDs who were no longer employed by the Town. Nine of these individuals had not worked for the Town in over a year. Officials must ensure that fuel privileges cease at the same time Town employment is terminated. After we brought this matter to the attention of Town officials, they removed these individuals from the list.⁴ However, on the revised list of authorized users, we identified an additional 12 individuals who had active user IDs, but had not dispensed fuel in two years. Fuel privileges should be restricted to only those individuals who have a routine need to obtain fuel for the purpose of conducting Town duties.

We selected 877 unleaded fuel transactions⁵ from calendar year 2012, totaling \$36,033, to determine if the purchases were made by authorized Town employees during normal business hours. We identified questionable fuel transactions associated with the user ID of a former employee who had not worked for the Town since September 30, 2011. As a result, we expanded our testing to include all fueling events for this user ID from May 9, 2011,⁶ through May 5, 2013. We identified 140 fuel transactions associated with this user ID, totaling \$6,971. We determined that 105 of these transactions, for 1,598 gallons of unleaded gasoline totaling \$4,991, were highly questionable. All but four⁷ of these transactions occurred while this individual was no longer employed by the Town.

³ As of May 3, 2013, there were 113 individuals with active user IDs. Of these, 23 were not currently employed by the Town. However, 10 of the 23 were seasonal employees that were rehired during May or June 2013.

⁴ Based upon our review of the revised list dated May 31, 2013

⁵ See the methodology section for more details on our selection process.

⁶ Fueling records available online went back to May 9, 2011.

⁷ Four of the 105 questionable fuel transactions occurred while the individual associated with the user ID was employed by the Town. However, our review of his time sheets found that these transactions occurred outside his documented work hours.

We brought this matter to the attention of Town officials who immediately contacted law enforcement officials. Town officials subsequently informed us that law enforcement officials obtained security camera video⁸ from the gas station. This evidence disclosed, on two different occasions, that the former employee was dispensing fuel into an automobile that was not a Town vehicle. The former employee was arrested and charged with five criminal offenses. We were told that a set of keys to one of the Town's vehicles, which included a key to the gas station lockbox, was kept by this individual when his Town employment ceased. Officials were unaware that this set of keys was missing.

In New York State, unleaded gasoline is taxed⁹ in the amount of approximately 69 cents per gallon. Municipalities are exempt from these taxes; however, individuals are not. Consequently, the value of the 1,598 gallons of fuel obtained by this individual was \$6,219. The Town paid \$4,991, while the Federal and State governments were improperly deprived of \$1,104 for taxes that should have been paid for fuel used for other than Town purposes. Also, the Town received a discount of \$124 on these fuel transactions from the gas station, which the former employee should not have received.

The unauthorized fueling activity went undetected because Town officials did not review fuel transactions or ensure that user IDs for terminated employees were removed from the credit card vendor's active list immediately, when their Town employment ended. Had officials reviewed the monthly fuel invoice, they would have noticed the former employee's name and user ID listed every month during the 20-month period after his employment ended. In addition, if procedures such as monitoring fuel appropriateness based on the date and time of the fuel transaction had been implemented, officials would have identified fuel being dispensed at unusual times such as weekends and other than typical work hours.

We also identified thirteen other discrepancies for which the appropriateness of the fuel purchase was determined to be reasonable after our further inquiry. For example, a department supervisor told us that she occasionally allowed her fuel user ID to be used by other employees in her department. This resulted in fuel transactions with this individual's user ID, during times she was not working. This practice is not advised as it doesn't allow fuel use to be properly associated with the correct individual.

⁸ We were told that the gas station retains only three weeks of surveillance camera video.

⁹ Taxes applied to unleaded gasoline include Federal Excise tax (18.4 cents/gallon) as well as State Excise, other State taxes, and fees (50.6 cents/gallon). These amounts may vary from year to year.

Town officials took corrective action soon after we informed them of the questionable fuel use. A fuel use policy was implemented and procedures established to terminate user IDs when Town employment ends. In addition, fuel alerts have been established to inform officials when fuel transactions occur at times other than normal business hours.

Recommendations

1. The Board should seek restitution from the former employee for fuel purchases used for other than Town purposes.
2. The Board should require that user IDs only be assigned to employees with a routine need to obtain fuel for the purpose of conducting their Town duties. Each employee should use their own ID when pumping fuel.
3. The Board should take appropriate action to reduce the risk that lockbox keys can be duplicated in an unauthorized manner.
4. Department supervisors should periodically conduct an inventory of lockbox keys.
5. The Board should require regular monitoring of fuel transactions to ensure they are appropriate Town purchases.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



THE TOWN OF

GRAND ISLAND

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Supervisor

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August 28, 2013

Robert Meller
Chief Examiner of Local Government and
School Accountability
Office of the State Comptroller
295 Main Street Suite 1032
Buffalo, NY 14203

RE: Town of Grand Island Internal Controls Examination

Dear Mr. Meller:

On behalf of the Town Board of the Town of Grand Island, I would like to thank your office, and particularly, your examiner, [REDACTED] for her courtesy and professionalism in conducting a review of our internal controls over fuel purchases.

The Town Board and our Supervising Accountant agree with the findings of the examination. Your review prompted immediate action to tighten existing controls and implement new controls, over the purchases of fuel.

As elected officials we take our fiduciary responsibilities very seriously, and a Corrective Action Plan (CAP) has already been implemented to address your findings and recommendations.

Respectfully yours,

Mary S. Cooke
Town Supervisor

MSC:lw

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine whether there were adequate controls over the Town's purchase of fuel. To accomplish the objective of the audit and obtain valid audit evidence, we interviewed officials, tested selected fuel transactions, and examined pertinent documents for the period May 9, 2011, through June 14, 2013. Our procedures included the following steps:

- We interviewed appropriate officials to gain an understanding of the purchase and use of fuel and document procedures that were in place to monitor the use of fuel.
- We selected our test sample from fuel transaction data obtained from the credit card vendor's website. Fuel transaction data was available from May 9, 2011, through May 5, 2013:
- We initially limited our testing to only 2012 unleaded fuel transactions, as the risk of abuse is greater for unleaded fuel than diesel fuel.
- From the list of unleaded fuel transactions, we tested those we believed presented the greatest risk for abuse. We selected transactions that occurred on weekends, holidays, and at times when Town business is not typically conducted (prior to 7:30AM and after 5:00PM).
- We also selected fuel transactions for all part-time police officers, van drivers, and certain part-time employees.
- This resulted in 877 fuel transactions totaling \$36,033 that we tested for reasonableness and appropriateness.
- For any questionable transactions identified from 2012, we expanded our testing to include all fuel transactions for each of these ID numbers from May 9, 2011, through May 5, 2013.
- For each fuel transaction selected, we compared the date and time of the transaction with time and attendance records to determine if the individual was working when the fuel was obtained.
- We also reviewed a list of all fuel user IDs prior to when the questionable fuel transactions were identified and then again after the list had been updated. We identified user IDs associated with individuals that were no longer Town employees as well as user IDs of current Town employees that did not regularly obtain fuel.

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 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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Andrew A. SanFilippo, Executive Deputy Comptroller
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