



Town of Poland

Internal Controls Over Vehicle Fuel Inventory

Report of Examination

Period Covered:

January 1, 2012 — November 27, 2013

2013M-386



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2014

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 Poland, entitled Internal Controls Over Vehicle Fuel Inventory. 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 Poland (Town) is located in Chautauqua County and has a population of approximately 2,400. The Town is governed by the Town Board (Board), which comprises four elected council members and an elected Town Supervisor (Supervisor). The Board is responsible for the overall management of the Town.

The Supervisor serves as the Town's chief executive and chief fiscal officer and is responsible for receiving, disbursing and maintaining custody of Town moneys, maintaining accounting records and preparing financial reports. The Town provides the following services to its residents: street maintenance, snow removal, street lighting, fire protection and general government support. The Town's budgeted appropriations for the 2013 fiscal year totaled \$1.08 million and were funded primarily with real property taxes, sales tax and State aid.

The elected Highway Superintendent (Superintendent) is responsible for overseeing all highway department (Department) operations, including the maintenance and repair of Town roads and snow and brush removal. The Department has 10 vehicles and major pieces of equipment used for the Department's operations. The Superintendent also is responsible for monitoring the use of consumable inventories, such as fuel, auto parts and other supplies.

Objective

The objective of our audit was to determine if the Town was adequately safeguarding its fuel inventory. Our audit addressed the following related question:

- Have Town officials established controls to adequately safeguard vehicle fuel?

Scope and Methodology

We examined fuel inventories for the period January 1, 2012 through November 27, 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 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 plan to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Town Board to make this plan available for public review in the Town Clerk's office.

Fuel Inventory

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

The Town maintains two above-ground fuel storage tanks at its highway facility: a 1,500-gallon tank for diesel fuel and a 500-gallon tank for gasoline. From January 2012 through October 2013, the Town purchased 24,000¹ gallons of fuel costing approximately \$80,000.² The Superintendent, Department employees, fire district personnel and the cemetery caretaker manually record amounts dispensed for Town and fire district purposes in diesel fuel and gasoline usage logs.³ However, the Town does not maintain perpetual inventory records to show the amount of fuel remaining in inventory at any given time, and it does not take periodic physical inventories for reconciliation purposes.

We performed an analysis of the Town's fuel purchases and usage records⁴ to determine if the amount purchased and used was reasonable. Assuming that the tanks were filled to capacity after the first and last deliveries that occurred during our audit period, we determined that approximately 7,100 gallons valued at \$23,500 were unaccounted for.⁵ The Superintendent could not offer an explanation for this significant discrepancy.

¹ 19,200 gallons of diesel fuel and 4,900 gallons of gasoline

² The majority of the Town's highway vehicles use diesel fuel, while the Superintendent's truck, another truck used by Department employees and some smaller pieces of equipment use gasoline.

³ The Kennedy Fire District uses fuel from the Town's tanks, and the Town bills the fire district for the cost of the fuel. The cemetery caretaker submits an annual usage log, and the Town accountant adjusts the accounting records using the average cost of the fuel used.

⁴ Our analysis for diesel fuel covered the period January 4, 2012 through October 24, 2013, and the analysis for gasoline covered the period January 23, 2012 to October 10, 2013.

⁵ The cemetery caretaker did not notify the Town of his fuel use for 2012. He used approximately 100 gallons of gasoline in 2013.

We also found apparent errors in the fuel usage records. For example, an entry dated January 2, 2013 indicated that 280 gallons of fuel were dispensed even though the fuel tank capacity of the vehicle recorded as having been fueled is only 100 gallons. The Superintendent stated that the amount dispensed may have been from multiple dates and combined into one entry.

In addition, the Superintendent provided us with two gasoline fuel usage logs⁶ with similar entry dates, but with different amounts of gasoline dispensed. The two records had a total difference of 264 gallons valued at approximately \$890.⁷ The Superintendent was unable to provide an explanation for the two logs.

The Town has not taken measures to provide physical security over fuel. For example, there are no procedures in place to record the distribution of fuel shed keys. Also, because the distributed keys can be duplicated, there is no assurance that an inventory would identify all of the keys that exist. Additionally, once the shed is opened, there is unrestricted access to the fuel tanks. Therefore, without other security measures, such as video cameras, it is difficult to identify which individuals are accessing the Town's fuel inventory.

The lack of security measures, incomplete fuel use logs, absence of perpetual inventory records and lack of inventory reconciliations places the Town at risk for the unauthorized use or theft of the Town's fuel.

Recommendations

1. The Board and Superintendent should further investigate the 7,100 gallons of unaccounted-for fuel and take appropriate action to improve security over fuel supplies.
2. The Board should develop policies and procedures to safeguard vehicle fuel.
3. The Superintendent should ensure that vehicle fuel inventory records identify the beginning inventory and the quantities of fuel delivered, dispensed and on hand. These records should be periodically reconciled to physical inventories of fuel on hand. Any differences should be promptly investigated and resolved.
4. The Board should take appropriate action to reduce access to the fuel shed. Consideration should be given to changing the locks and issuing numbered keys that cannot be duplicated. The Superintendent should maintain an inventory of the distribution of numbered fuel shed keys.

⁶ Both fuel reports covered the time period January 2012 through June 2013.

⁷ We calculated this amount by multiplying 264 gallons by the average price per gallon (\$3.3834) at the time of our fieldwork.

5. The Board should require the Superintendent to regularly monitor fuel usage for reasonableness.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

**STATE OF NEW YORK
COUNTY OF CHAUTAUQUA
TOWN OF POLAND**

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February 11, 2014

Mr. Robert Meller
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Buffalo Regional Office
295 Main Street
Suite 1032
Buffalo, NY 14203-2510

Dear Mr. Meller

This letter is in response to the Audit that was conducted on the Town of Poland in Kennedy NY.

The Town of Poland agrees with the findings of the state auditors as where there needs to be tighter controls in regards to the fuel records of the Highway Department.

We are taking additional steps in changing our practices and record keeping as well as some additional surveillance options.

Thank you,

Kelly Snow
Town of Poland
Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: Court operations, Town Clerk operations, tax collection operations, Supervisor's records and reports, claims processing and procurement, cash receipts and disbursements and payroll.

During the initial assessment, we interviewed appropriate Town officials, performed tests of transactions and reviewed pertinent documents, such as Town policies, Board minutes and financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected internal controls over fuel inventory.

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

- We interviewed the Superintendent to obtain an understanding of the fuel inventory records maintained and physical controls over fuel inventory.
- We reviewed invoices showing the number of gallons of gasoline and diesel fuel purchased for comparison with the amounts dispensed from the usage records provided by the Superintendent.
- We reviewed fuel usage logs for unusually large or frequent fuel fill-ups for the same vehicle and sought rationale for these occurrences from the Superintendent.
- We compared the total dollar amount paid to the total gallons purchased to determine the average cost of fuel purchased for diesel fuel and gasoline and applied these averages to the unaccounted-for balances to determine the value of the fuel.

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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