



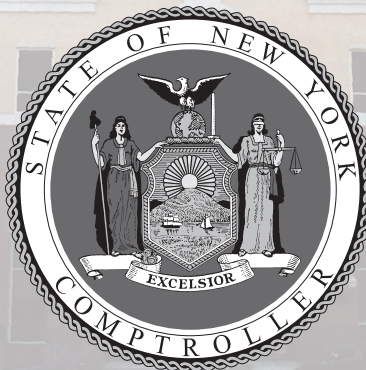
Town of Smithtown Departmental Operations

Report of Examination

Period Covered:

January 1, 2015 — August 31, 2016

2017M-66



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2017

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 Smithtown, entitled Departmental Operations. 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 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Smithtown (Town) is located in Suffolk County, covers about 54 square miles and serves more than 118,000 residents. The Town is governed by an elected Town Board (Board) composed of four Board members and the Town Supervisor (Supervisor). The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor serves as the chief executive and chief fiscal officer and is responsible for overseeing the Town's day-to-day operations.

The Highway Superintendent is responsible for overseeing the maintenance and improvement of the Town's public road infrastructure and maintenance and fueling of a fleet of approximately 200 vehicles. The Parks, Buildings and Grounds Department (Parks Department) Director is responsible for oversight of the maintenance, repair and enhancement of parks, beaches, properties and buildings and the repair and maintenance of Town vehicles. The Parks Department also issues permits for individuals who park, camp and picnic at Town facilities.

General fund budgeted appropriations for 2016 totaled \$43.7 million, funded primarily with real property taxes, departmental income and State aid. Highway fund budgeted appropriations for 2016 totaled \$26.1 million, funded primarily with real property taxes.

Scope and Objectives

The objectives of our audit were to examine Highway Department and Parks Department operations for the period January 1, 2015 through August 31, 2016. Our audit addressed the following related questions:

- Do Town officials maintain complete and accurate fuel inventory records to safeguard the Town's fuel?
- Do Parks Department officials adequately monitor nonresident parking cash collections and permits issued?

Audit Results

Town officials need to improve the fuel inventory recordkeeping over mobile fuel transfer tanks to help ensure fuel is safeguarded. We found that neither the Highway nor Parks Department maintained records for 10,636 gallons of diesel fuel and 11,329 gallons of gasoline (collectively valued at \$35,681) dispensed from the Town's four mobile fuel transfer tanks and the Parks Department did not keep adequate records showing the amount of fuel used to fill mobile transfer fuel tanks. The Board also did

not enter into written shared service agreements with any of the eight municipalities¹ permitted to use Town fuel. Additionally, the Highway Department did not implement adequate procedures to ensure that municipalities are accurately billed for all fuel used. As a result, Town officials have limited assurance that the Town is reimbursed for all fuel used by these municipalities.

Parks Department officials did not establish procedures over the sale, inventory and accounting for nonresident parking permits to adequately monitor cash collections and permits issued. Officials did not have written procedures requiring that the number of permits purchased be periodically reconciled with the number of permits sold and Department staff did not maintain any inventory records for permits.

We reviewed all nonresident parking cash receipt and deposit records totaling \$49,832 for the audit period and found that all permit sales recorded were deposited in a timely manner. However, because the records did not always identify whether money collected was composed of cash or checks, Town officials are unable to determine whether all money collected was deposited intact.²

Because Parks Department employees did not track permits (by number) from purchased stock through issuance and payment or prepare reconciliations, Town officials are unable to determine whether all nonresident parking permits were accounted for or appropriate fees were collected for all permits issued. Without adequate procedures over the sale, inventory and accounting of nonresident parking permits, discrepancies could occur without detection by Town officials.

Comments of Local Officials

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 agreed with our recommendations and indicated they planned to initiate corrective action.

¹ The Town allowed eight municipalities to dispense fuel from its tanks. These municipalities included two school districts (Kings Park CSD and Smithtown CSD), two fire districts (Nesconset and Saint James), the Smithtown Special Library District and the Villages of the Branch, Head of the Harbor and Nissequogue.

² Intact means in the same amount and form (cash or check) as received.

Introduction

Background

The Town of Smithtown (Town) is located in Suffolk County, covers about 54 square miles and serves more than 118,000 residents. The Town is governed by an elected Town Board (Board), which is composed of four Board members and the Town Supervisor (Supervisor). The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor serves as the chief executive and chief fiscal officer and is responsible for overseeing day-to-day operations. The Town Comptroller is responsible for maintaining the accounting records and safeguarding Town funds.

The Town provides various services to its residents, including waste management, highway improvements and maintenance, parks and recreations, public safety and general government support. General fund budgeted appropriations for 2016 totaled \$43.7 million, funded primarily with real property taxes, departmental income and State aid. Highway fund budgeted appropriations for 2016 totaled \$26.1 million, funded primarily with real property taxes.

The Highway Superintendent (Superintendent) is responsible for overseeing the maintenance and improvement of the Town's public road infrastructure and maintenance and fueling of a fleet of approximately 200 vehicles, including cars, trucks and construction equipment. The Parks, Buildings and Grounds Department (Parks Department) Director is responsible for oversight of the maintenance, repair and enhancement of parks, beaches, properties and buildings and the repair and maintenance of Town vehicles. The Parks Department also issues permits for individuals who park, camp and picnic at Town facilities.

Objectives

The objectives of our audit were to examine Highway Department and Parks Department operations. Our audit addressed the following related questions:

- Do Town officials maintain complete and accurate fuel inventory records to safeguard the Town's fuel?
- Do Parks Department officials adequately monitor nonresident parking cash collections and permits issued?

Scope and Methodology

We examined the Town fuel records and Parks Department cash receipt and permit records for the period January 1, 2015 through August 31, 2016.

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. 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 relevant population size and the sample selected for examination.

**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 agreed with our recommendations and indicated they planned 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 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 Use

Town officials are responsible for ensuring Town fuel supplies are adequately safeguarded, accounted for and protected against the risk of loss, waste and misuse. Officials should maintain perpetual fuel inventory records to account for the amount of fuel that should be in the storage tanks at any given time and periodically reconcile these records with physical inventories. The Board should investigate and resolve any material discrepancies. Town officials should review fuel usage records to ensure that fuel is used for Town purposes, all fuel used can be accounted for and other municipalities using Town fuel are accurately billed in accordance with a written shared services agreement.

The Highway Department maintained four underground fuel tanks at two locations (one 10,000-gallon diesel tank and one 12,000-gallon gasoline tank at its Smithtown location and one 8,000-gallon diesel fuel tank and one 10,000-gallon gasoline tank at its Kings Park location). The Parks Department maintained one 1,000-gallon above-ground diesel fuel tank and one 10,000-gallon underground gasoline tank at its Kings Park offices and one 4,000-gallon underground gasoline tank at the marina. In addition, these departments maintained four 100-gallon mobile fuel transfer tanks.

From January 1, 2015 through August 31, 2016, the Town purchased 266,832 gallons of diesel fuel and 110,083 gallons of gasoline for the Highway Department at a total cost of \$601,598 and 16,289 gallons of diesel fuel and 153,136 gallons of gasoline for the Parks Department at a total cost of \$274,950. Parks Department staff used a computerized system to track department fuel use and determine the quantities used by other municipalities for billing purposes. Highway Department personnel used a manual system to track department fuel use and determine the quantities used by and amounts due from the municipalities.

Town officials need to improve the fuel inventory recordkeeping to help ensure fuel is safeguarded. The Highway and Parks Departments did not maintain records for 10,636 gallons of diesel fuel and 11,329 gallons of gasoline (collectively valued at about \$35,600) dispensed from the mobile transfer fuel tanks and the Parks Department did not keep adequate records showing the amount of fuel used to fill its mobile tanks. The Board did not enter into written shared service

agreements with any of the eight municipalities³ permitted to use Town fuel. Additionally, the Highway Department did not implement adequate procedures to ensure that municipalities are accurately billed for all fuel used.

Mobile Fuel Transfer Tanks

The Superintendent and Director are responsible for ensuring that fuel supplies are adequately safeguarded, accounted for and protected against unauthorized use. It is important for Town officials to review fuel records to determine if use is reasonable, to ensure that all fuel can be accounted for and to ensure that fuel is used for Town purposes. Such controls are especially important because these are attractive assets to misappropriate for personal use.

Mobile fuel transfer tanks are used to bring fuel to machinery and vehicles, which require fuel but are not easily moved. During our audit period, the Highway Department filled its two mobile tanks with 2,875 gallons of diesel fuel that cost \$4,178 and the Parks Department filled one mobile tank with as much as almost 7,760 gallons of diesel fuel that cost \$12,538 and the other mobile tank with as much as 11,329 gallons of gasoline that cost \$18,965.

We reviewed fuel records from November 1, 2015 through March 31, 2016 and found that neither the Highway nor Parks Departments kept any record for the amount of fuel dispensed from the mobile tanks. In addition the Parks Department did not keep adequate records showing the amount of fuel used to fill its mobile tanks. While the Highway Department personnel entered the phrase “back tank” on manually kept fuel logs when filling mobile tanks, Parks Department employees used the same fuel key to fill the mobile tanks, mobile tank trucks and other small machinery. As a result, Town officials were unable to determine the amount of fuel used to fill Parks Department mobile tanks. Furthermore, officials have no assurance that fuel dispensed from mobile tanks was used for legitimate Town purposes.

Billing

When local governments agree to share services, each governing body should enter into a written agreement that defines the rights and responsibilities of each party and includes an equitable allocation of costs and appropriate procedures to help ensure the long-term success of shared services.

While the Board did not enter into any written shared service agreements with the eight municipalities allowed to dispense gasoline

³ The Town allowed eight municipalities to dispense fuel from its tanks. These municipalities included two school districts (Kings Park CSD and Smithtown CSD), two fire districts (Nesconset and Saint James), the Smithtown Special Library District and the Villages of the Branch, Head of the Harbor and Nissequogue

and diesel fuel from Town fuel tanks, Town officials had informal arrangements allowing these municipalities to use Town fuel. The Town had procedures in place to bill the municipalities monthly for the cost of fuel used. However, these procedures were inadequate to ensure that all fuel used by these municipalities was correctly billed.

Parks Department – Each vehicle authorized to use the Department’s fuel pumps was assigned a fuel key that identified the vehicle in the computerized fuel system, including the Town department or municipality to which it belonged. The labor crew leader was responsible for compiling the billing information based on a usage report from the fuel system, which included the total gallons used each day by each Town department and municipality. He multiplied the gallons used each day by the fuel price based on the Town’s last fuel delivery to determine the amount to be billed. The senior clerk then created invoices based on these calculations, which the Director approved, and mailed them to the municipalities. We reviewed the invoices issued from January 1, 2016 through April 30, 2016 and found only minor discrepancies, which we discussed with Town officials.

Highway Department – Highway officials did not maintain a master list identifying the specific vehicles for each municipality or Town department. At each Highway location, a fuel attendant recorded all fuel dispensed on a manual log. The principal clerk reviewed the log and highlighted any fuel dispensed by municipalities to be billed based on her familiarity with the vehicles belonging to each municipality. She then reviewed the New York State Office of General Services website to determine the State contract fuel price on each date that fuel was dispensed to calculate the amount each municipality owed. Based on this information, the clerk typist then created and sent monthly invoices to each municipality.

However, because Highway Department staff did not have a master list identifying the vehicles for each municipality using Town fuel, Town officials are unable to determine whether the amount of fuel dispensed to the municipalities was accurately billed. As a result, Town officials have limited assurance that the Town is reimbursed for all fuel used by these municipalities.

Recommendations

The Board should:

1. Enter into written shared service agreements with any municipalities using Town fuel, indicating the contract periods, describing the services to be provided and documenting the basis used to determine the Town’s entitlement to payments from the municipalities.

Town officials should:

2. Develop, implement and enforce written procedures to identify and bill municipalities for fuel used and provide reasonable assurance that all fuel used, including in mobile fuel transfer tanks, is for legitimate Town purposes.

Highway and Parks Department officials should:

3. Maintain detailed records of all fuel used to fill and dispensed from mobile fuel transfer tanks.

Nonresident Parking Permits

Well-designed controls over Parks Department cash receipts require that the Board and Director establish written policies and procedures for issuing nonresident parking permits. Such policies and procedures should include properly accounting for all permits issued and money collected and ensuring that receipts are deposited timely and intact.⁴ Additionally, it is essential to maintain an inventory of all permits ordered, issued and sold and periodically reconcile the permits purchased and sold. An accurate inventory is an effective tool to assist in accounting for permit sales.

The Town issues parking permits to nonresidents, which allows them to use Town facilities. Daily permits are issued and revenue is collected, in the form of cash and checks, by the three office staff at the Parks Department office and by attendants at Hoyt Farm. All official records for permits issued and cash collected are maintained at the Parks Department office. The Parks Department recorded nonresident parking permit sales totaling \$49,832 during our audit period.

Parks Department officials did not establish procedures over the sale, inventory and accounting for nonresident parking permits to adequately monitor cash collections and permits issued. The Parks Department did not have written procedures requiring that the number of permits purchased be periodically reconciled with the number of permits sold, and Parks Department staff did not maintain any inventory records for these permits.

We reviewed all nonresident parking permit cash receipt and deposit records for our audit period and found that all permit sales recorded were deposited in a timely manner. However, because the records did not always identify whether money collected was composed of cash or checks, Town officials are unable to determine whether all money collected was deposited intact. Furthermore, inventory records for the number of permits ordered, on hand, issued and sold were not maintained. Parks Department employees did not track permits (by number) from purchased stock through issuance and payment or prepare reconciliations and Parks Department officials did not perform any review of permits.

The Director purchased a supply of blank pre-numbered nonresident parking permit stock from an outside vendor each year. Throughout the year, Parks Department staff are provided with batches of parking

⁴ Intact means in the same amount and form (cash or check) as received.

permits to issue to nonresidents. However, the batches are not used in sequential order and records are not maintained showing the sequence numbers of permits provided to each staff member. Further, if Parks Department staff sold more permits than were ordered for a given year, they issued unsold permits remaining from previous years. However, staff members did not maintain a record showing how many permits remained in inventory at the end of each year or the sequence numbers of these permits.

Because the Director and staff members did not maintain inventory records for nonresident parking permits and some permits issued were unsold permits from multiple years, Town officials are unable to determine whether all the permits were accounted for or appropriate fees were collected for all permits issued. Without adequate procedures over the sale, inventory and accounting of nonresident parking permits, discrepancies could occur without detection by Town officials.

Recommendations

The Director should:

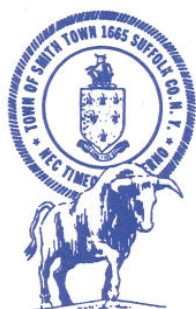
4. Establish comprehensive cash receipts policies and procedures to communicate the duties, records and procedures required for ensuring that cash collected is properly recorded, accounted for and deposited intact.
5. Maintain an accurate inventory of all nonresident parking permits purchased, on-hand and issued.
6. Periodically reconcile the number of nonresident parking permits purchased, sold and on hand and promptly investigate and resolve any discrepancies.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

The Town officials' response letter refers to attachments that support the response letter. Because the response letter provides sufficient detail of its actions, we did not include the attachments in Appendix A.



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TOWN OF SMITHTOWN

PATRICK R. VECCHIO
TOWN SUPERVISOR

June 11, 2017

Mr. Ira McCracken, Chief Examiner
Division of Local Government & School Accountability
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, NY 11788-5333

Re: Town of Smithtown Report # 2017M-66, Period Covered January 1, 2015-August 31, 2016

Dear Mr. McCracken,

The Town of Smithtown appreciates the efforts of the Comptroller's office to identify opportunities for improving operations and governance.

Your audit which effectively began July 12, 2016 with your engagement letter to the Town in which we both agree that the focus of your audit would "focus on policies and procedures related to internal controls at the Town." Along those lines, we provided to your office a list of journals, records, policies, employee records, etc. (Attachment A) which was then test sampled by your audit team over an approximate 7 month period of time. Additionally, though not included on Attachment A, the Town provided an electronic transmission of the Town's entire cash disbursements for the audit period which was able to be tested using computer aided analyses to detect patterns and or irregularities. These exhaustive preliminary examination procedures performed by your staff yielded the two objectives of your audit first identified in your draft report received by the Town on May 12, 2017.

We have thoroughly reviewed that report for accuracy and have prepared our corrective action plan as attachment B.

In closing, the Town Board and staff of the Town of Smithtown would like to thank the staff of the OSC for their insight, courtesy and professionalism in conducting this exhaustive audit.

Respectfully,

Patrick R. Vecchio
Town Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objectives and obtain valid evidence, we performed the following procedures:

- We interviewed Town officials to gain an understanding of the Town's procedures and records maintained regarding fuel and Parks Department cash receipts and nonresident parking permits.
- We judgmentally selected the period November 2015 through March 2016 because a significant amount of fuel would be used during this period due to snow removal. We reviewed the manual and computerized fuel pump logs and reconciliations for the Highway and Parks Departments. We reconciled the fuel log entries to recorded pump records to identify fuel dispensed into the mobile transfer tanks and to other municipalities.
- For the selected period, we reviewed vendor payment history reports, fuel claim vouchers, invoices, computerized and manual fuel pump logs to determine the fuel amounts purchased and used and performed a reconciliation to determine whether all fuel was accounted for.
- We observed the nonresident parking permit stock and reviewed any available voided permits for the audit period.
- We compared the Parks Department cash receipts journal, deposit slips, bank statements and the general ledger report for the audit period to determine whether any inconsistencies existed.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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