

Town of Barton

Highway Asset Accountability and Procurement

APRIL 2019



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Town of Barton

Audit Objective

Determine whether Town officials have adequate controls in the Highway Department to safeguard assets.

Determine whether Town officials used a competitive process to procure highway goods and services.

Key Findings

Town officials did not:

- Adequately safeguard highway assets, including scrap metal, which may have resulted in at least \$1,700 in scrap metal proceeds being used for inappropriate expenditures.
- Monitor highway fuel use, resulting in 531 gallons of gasoline totaling over \$1,100 that could not be accounted for.
- Competitively procure goods and services, including motor oil and tires, resulting in potential overpayments of \$4,500.

Key Recommendations

The Superintendent should:

- Maintain an inventory list for non-insurable assets, report to the Board when assets are sold and ensure all scrap metal is adequately secured and sales proceeds are recorded and accounted for.
- Compare fuel purchases to amounts logged and provide periodic reconciliations to the Board.

The Board should:

- Establish adequate controls over highway assets, scrap metal and fuel.
- Ensure Town officials procure goods and services in conformance with policies and statute.

Town officials generally agreed with our recommendations and indicated they have planned to initiate corrective action.

Background

The Town of Barton (Town) is located in Tioga County. The Town is governed by an elected Town Board (Board) composed of a Town Supervisor and four Board members. The Board is responsible for the general management and control of the Town's financial operations. The Supervisor serves as the chief executive and chief fiscal officer. The Town has an elected Highway Superintendent (Superintendent), who oversees Highway Department operations.

Quick Facts

Population	8,858
2018 Highway Budgeted Appropriations	\$1.5 million
2018 Highway Tax Levy	\$521,200

Audit Period

January 1, 2017 – August 29, 2018

We extended our scope back to 2015 to review scrap metal sales.

Highway Asset Accountability

How Do Town Officials Adequately Safeguard Highway Assets?

The board and superintendent, as town officials, are obligated to act in a fiscally responsible manner and in the best interest of the taxpayers. The superintendent is required to maintain a written inventory of highway assets, including insurable and non-insurable assets such as machinery, equipment, tools and implements, and submit this list to the Board annually.¹ The superintendent is also responsible for recording and monitoring consumable inventories, such as equipment parts, maintenance supplies and fuel. The superintendent should reconcile these lists to physical inventories and provide reconciliations to the board. The superintendent should make recommendations to the board when property is considered surplus or obsolete. The board may then approve the sale or disposal of this property and the superintendent should report to the board when it is sold. The superintendent and board should ensure town assets and scrap are secured and sales proceeds are recorded. Additionally, the superintendent should compare fuel purchases to amounts logged and provide reconciliations to the board.

Town Officials Did Not Adequately Safeguard Highway Assets

The Superintendent purchases, safeguards and disposes of highway assets with minimal oversight. The Superintendent has an inventory list for insurable assets, but does not maintain one for non-insurable assets, such as older equipment, consumable inventories and hand tools and does not submit any inventory lists to the Board. Furthermore, although officials discussed selling equipment in the Board meeting minutes, the Superintendent did not consistently report when equipment was sold, nor did the Board formally approve all sales and ensure proceeds were deposited.

Due to the lack of accountability, we:

- Contacted the vendor used to auction off surplus machinery and material and obtained seller statements. We verified all eight checks from auctioned items totaling \$81,900 were deposited intact. One check for \$6,000 was deposited 17 months after being issued because the check was lost in the mail. Town officials were unaware of the missing check until they were contacted by the auctioneer.
- Verified that all 36 insurable assets were either onsite at the Highway facility or present in the field at existing jobsites.
- Reviewed 31 oil and other consumable inventory purchases totaling \$18,700 and found all fluids were compatible with Town equipment. We compared the motor oil used to equipment maintenance logs and found the amounts were reasonable.

¹ Highway Law Section 142

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- Verified 20 hand tools purchased during our scope totaling \$7,400 were onsite and in good working order.

In addition, the Superintendent did not ensure all scrap was secured and that sales proceeds were recorded as revenues. Further, the Board was not aware scrap metal was being sold. In August 2017, the Board found out scrap metal was being sold and the proceeds were kept in a safe at the highway garage. Town officials recovered \$3,500 from the safe, which we verified was then deposited intact. We reviewed scrap metal sales records from a local vendor² and found that Town employees returned a total of \$5,200 in scrap metals from April 2015 through September 2017. Town officials stated that it was the practice of former Superintendents to use the proceeds from scrap metal sales for food and beverages for highway personnel. This may have resulted in at least \$1,700 in Town proceeds being used for inappropriate expenditures.

These exceptions occurred because the Superintendent did not maintain, and the Board did not periodically verify, accountability over highway assets. Additionally, the Board did not establish formal policies and procedures for disposing of Town assets or controlling scrap metal sales revenues. Due to the weak control environment, there is a significant risk that assets could be lost, stolen or sold without detection.

Town Officials Did Not Monitor Highway Fuel Use

Town officials need to improve fuel inventory monitoring to ensure fuel is safeguarded. The Town has two fuel tanks onsite at the highway garage, a 3,000-gallon diesel tank and a 1,000-gallon gasoline tank. Highway personnel and the code enforcement officer fuel equipment and vehicles and manually log the gallons. However, the Superintendent did not compare fuel purchases to amounts logged, nor did the Board request periodic reconciliations.

We compared diesel fuel usage for two quarters and found the amounts purchased appeared reasonable compared to amounts logged and the period used. However, from January 31, 2017 through August 29, 2018, the Superintendent purchased 1,813 gallons of gasoline totaling \$3,800 while the logs totaled a use of 1,282 gallons, a discrepancy of 531 gallons, or 29 percent. The Superintendent told us that the missing gallons were likely from unlogged portable five-gallon cans and a piece of paving equipment. We noted that neither of these items were listed in the gasoline logs.

Because the Superintendent did not ensure that highway personnel recorded all gasoline consumed or perform periodic fuel inventory reconciliations, the usage of

² The vendor transaction history reports were obtained by the Tioga County Sheriff's Office during an investigation of the highway department employees' scrap metal sales and provided to us by local officials. The investigation was closed due to a lack of evidence.

531 gallons of gasoline totaling approximately \$1,100 could not be accounted for. In addition, the Town has an increased risk that gasoline could have been wasted or misused.

What Do We Recommend?

The Superintendent should:

1. Complete and maintain an annual inventory of Town assets, including non-insurable assets, and submit this to the Board prior to September 30th.
2. Periodically reconcile the asset lists to physical inventories, provide the reconciliations to the Board, consistently make recommendations for property to be sold and report to the Board when property is sold.
3. Ensure all assets and scrap are secured and sales proceeds are properly recorded and accounted for as Town revenues.
4. Compare fuel purchases to amounts logged and provide periodic reconciliations to the Board.

The Board should:

5. Ensure that the Superintendent is maintaining inventory lists, periodically reconciling the lists to physical inventories and consistently making recommendations for property to be sold and reporting to the Board when property is sold.
6. Formally approve the sale or disposal of property deemed surplus or obsolete.
7. Establish policies and procedures for the sale of unused Town assets and scrap metal to ensure all assets and scrap are secured and sales proceeds are properly recorded and accounted for as Town revenues.
8. Request periodic reconciliations of fuel purchases to amounts logged from the Superintendent for review.

Procurement

How Should Town Officials Procure Goods and Services?

The board should ensure that highway purchases are appropriate town expenditures, are used for legitimate town purposes and comply with General Municipal Law (GML)³ requirements. GML allows the town to procure goods from contracts bid by other governmental entities.⁴ GML⁵ further requires the board to adopt a written procurement policy (policy) for goods and services⁶ that do not have to be competitively bid. The policy should outline alternative competitive methods and require documentation of actions taken. These methods can include competitive bidding, sending out requests for proposals and/or obtaining written and verbal quotes. The board should review the policy annually and update it as necessary.

Officials Did Not Always Competitively Procure Goods and Services or Comply with the Town's Policy

The Town's policy is dated March 25, 1984 and has competitive bidding dollar thresholds of \$10,000 for purchase contracts and \$20,000 for public works contracts.⁷ The policy requires all purchases over \$1,500 to have some form of quote, either verbal or written, to ensure the Town receives good value for its purchases. Further, the policy dictates that the Superintendent must receive the Board's preapproval for purchases of \$1,000 or more. The Board has not reviewed the policy annually or updated it as necessary, nor does the policy provide guidance for obtaining professional services. We found Town officials were generally unaware of the requirements in the policy.

We reviewed 168 purchases totaling \$1.5 million paid to vendors during our audit period for goods or services that may have required action based on GML or the policy. We found the Town generally purchased from New York State or County contracts; however, we found several exceptions:

- Twenty-seven payments totaling \$153,500 to two vendors for professional services in which the Town did not periodically seek competition.
- One public works service contract totaling \$90,700 for stone aggregate processing required formal bids; however, the Board did not seek competition.

3 Section 103

4 Such as New York State or a county (GML, Section 104)

5 Section 104-B

6 Such as professional services

7 GML, Section 103 was updated in 2010 and increased the thresholds to \$20,000 for purchase contracts and \$35,000 for public works contracts.

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- Fourteen purchases for \$46,400 in which the Superintendent did not request approval.
 - One purchase contract totaling \$24,700 for tires; the Superintendent told us the vendor honored the “Government” contract price; however, the Town potentially overpaid \$1,900 based on the price of the same size tires on the County contract.
 - Seven items totaling \$18,000 for which verbal or written quotes were not obtained.
 - One payment totaling \$17,000 for a stone crusher rental for which verbal or written quotes were not obtained.
 - Two payments for motor oil totaling \$5,200 that lacked verbal or written quotes and preapprovals. The Town potentially overpaid \$2,600 based on the price of equivalent oil on State contract.
 - One payment totaling \$2,300 for concrete for which verbal or written quotes were not obtained.

Although we found these purchases to be legitimate Town expenditures, when the Board does not ensure officials comply with the law and its own policies during the claims audit process, it cannot be certain that goods and services are procured in the most economical way and in the best interest of taxpayers.

What Do We Recommend?

The Superintendent should:

9. Make purchases in accordance with procedures, policies and the law.

The Board should:

10. Review and update the Town’s procurement policy, including guidance for obtaining professional services. Officials should refer to the Office of the State Comptroller’s Local Government Management Guide, Seeking Competition in Procurement, which is available at www.osc.state.ny.us/localgov/pubs/lgmg/seekingcompetition.pdf.
11. Ensure Town officials comply with Board policies and statutes requiring competition when procuring goods and services.

Appendix A: Response From Town Officials⁸

TOWN OF BARTON SUPERVISOR'S OFFICE
LEON R. CARY, SUPERVISOR
304 STATE ROUTE 17C
WAVERLY, NY 14892

April 11, 2019

██████████@osc.state.ny.us

Re: Procurement Policies & Procedures

After having reviewed the NYS Audit of the Town of Barton's Procurement Policy, I am proposing to the Town Board changes to said policy as well as recommending an audit of the Town of Barton's 2019 budget next year.

A copy of the amended Town of Barton Procurement Policy is attached, and with these changes and recommendations, we hope to have successfully complied with the audit's guidelines.

Leon R. Cary
Town of Barton Supervisor

⁸ The Town's response letter refers to an attachment that supports the response letter. Because the Town's response letter provides sufficient detail of its actions, we did not include the attachment in Appendix A.

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials to gain an understanding of highway operations, internal controls over assets, policies and procedures, purchasing activities and oversight of the highway department.
- We reviewed eight seller statements of Town assets that were auctioned to determine whether all proceeds were deposited into Town accounts timely and intact.
- We obtained an insurance list of equipment and performed site visits to determine whether the equipment was in the Town's possession. We inquired and inspected equipment to determine whether items were used for personal purposes.
- We reviewed all 31 oil and other consumable inventory purchases greater than \$50 totaling \$18,700 to determine whether the fluids were compatible with Town equipment and purchased in accordance with the policy. We analyzed the motor oil used to determine whether the amounts used were reasonable.
- We judgmentally selected 20 hand tools from commonly known vendors totaling \$7,400 and performed a site visit to determine whether the tools were onsite and in good working order and purchased in accordance with the policy.
- We judgmentally sampled 30 parts and maintenance purchases greater than \$50 totaling \$44,200 based on the item description and the vendor to determine whether the parts were compatible with Town equipment, were necessary for Highway operations and purchased in accordance with the policy.
- We interviewed Town officials regarding internal controls over scrap metal proceeds and reviewed documentation to determine total amounts returned and amounts deposited into the Town bank account.
- We sampled two quarters of diesel fuel purchases totaling \$20,900 and tested usage between tank fills to determine whether fuel use is appropriate, being monitored and whether it was purchased at State contract prices.
- We reviewed all gasoline purchases for our audit scope totaling \$3,800 and tested usage between tank fills to determine whether gasoline use is appropriate, being monitored and whether it was purchased at State contract prices.

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- We sampled 87 purchases totaling \$1.4 million, individually or in aggregate, of \$10,000 or more to individual contractors to determine whether the purchasers properly made the purchases through New York State, County or Town contract, periodically sought competition and/or were in compliance with the policy.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided 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 Board to make the CAP available for public review in the Town Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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Division of Local Government and School Accountability
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Local Government and School Accountability Help Line: (866) 321-8503

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