

Town of Fremont

Highway Asset Accountability and Procurement

MAY 2019



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

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Report Highlights

Town of Fremont

Audit Objective

Determine whether Town Officials have adequate controls to safeguard Highway Department assets.

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

Key Findings

- Town officials did not update the Town’s procurement policy.
- The Superintendent did not maintain documentation for quotes received.
- Town officials did not maintain a complete inventory listing or monitor highway fuel usage.

Key Recommendations

- Review and update the procurement policy.
- Document quotes obtained to ensure purchases are made in the most economical way.
- Maintain complete, accurate and up-to-date inventory records for assets and fuel.

Town officials agreed with our recommendations and indicated they have taken, or plan to take, corrective action.

Background

The Town of Fremont (Town) is located in Sullivan County (County).

The Town is governed by an elected Town Board (Board) composed of a Town Supervisor (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 is responsible for overseeing all highway department operations.

Quick Facts

Population	1,400
2019 Highway Fund Budgeted Appropriations	\$775,000
2019 Highway Fund Tax Levy	\$725,000

Audit Period

January 1, 2017 – September 4, 2018

Highway Asset Accountability

How Do Town Officials Adequately Safeguard Highway Assets?

Boards and highway superintendents have a shared responsibility for instituting internal controls over asset management in highway departments, and ensuring such assets are used for legitimate town purposes.

Highway superintendents are required to annually submit a written inventory¹ of highway machinery, tools and equipment to the town board. Additionally, the report should include a recommendation as to what machinery, tools and equipment should be purchased, together with the probable cost of each. Highway superintendents should seek board approval before disposing of assets that are no longer needed. The board may either approve the sale or disposal of property deemed surplus or obsolete. Planning for future needs and replacements is enhanced if disposals are made pursuant to a board approved asset disposition policy.

To safeguard fuel inventories, highway superintendents should ensure that perpetual inventory records are maintained to account for the amount of fuel purchased, the quantity dispensed and the balance remaining in the tank. The fuel balances in the perpetual records should be periodically reconciled to physical inventories, and material discrepancies should be investigated and resolved. It is also important for town officials to review fuel records to determine if use is reasonable, ensure that all fuel can be accounted for and ensure that fuel is used only for town purposes.

Town Officials Could Improve Maintaining Highway Asset Inventories

While two Board members created an inventory list, the Superintendent and the Board have not ensured it was updated regularly, was accurate and complete or submitted to the entire Board annually. The inventory list provided to us was created March 17, 2015 and was modified the same day it was presented to us. We were told by a Board Member that the inventory list has not been presented to the Board as a whole since its creation.

We selected 39 pieces of equipment that were part of the list to determine if they were in the Town's possession and determined that 38 pieces were in the Town's possession. Town highway employees stated that the missing piece of equipment was broken and discarded, but was not removed from the list. However, we were unable to determine if the item was actually broken and discarded because the Board did not document the disposition of the asset. We also randomly selected eight pieces of equipment observed in the highway garage to determine if they were recorded on the Town's inventory list, and determined that five of the pieces were not recorded. Furthermore, the inventory list does not include purchase date, gross purchase price, date placed in service and useful life.

¹ New York State Highway Law, Section 142

These exceptions occurred because the Superintendent was unaware of the statutory requirements regarding a written inventory, nor did the Board periodically verify accountability over highway assets. Additionally, the Board did not adequately establish formal policies and procedures for oversight of these Town assets, including procedures for disposing of unneeded Town assets. As a result, there is an increased 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 help ensure fuel is safeguarded. The Town has two fuel tanks onsite at the Highway garage; a 1,000 gallon diesel tank and a 500 gallon gasoline tank. Highway personnel use a manual system to track fuel use. However, the Superintendent did not compare fuel purchases to amounts logged, nor did the Board request periodic reconciliations.

We compared diesel and gasoline usage for three months during our audit period and determined that the Town purchased 1,180 gallons of gasoline and used 1,324 gallons during the same period. The Town also purchased 4,235 gallons of diesel fuel and used 4,202 gallons during the same period. We found the amount purchased appeared reasonable compared to amounts logged and the time period the fuel was used.

Because Town officials did not perform periodic fuel inventory reconciliations, there is an increased risk that fuel could be lost, wasted or misused.

What Do We Recommend?

The Board should:

1. Adopt an adequate system of internal controls over highway assets, including:
 - Periodically reviewing inventory and maintenance records.
 - Creating an asset disposition policy.
 - Ensuring that the Superintendent is properly maintaining complete, accurate and up-to-date fuel reconciliations.

The Superintendent should:

2. Maintain complete, accurate and up-to-date capital assets list which details date of purchase, cost of equipment and estimated useful life.
3. Maintain complete, accurate and up to-date perpetual fuel inventory records. (Records should be periodically reconciled to physical inventories. Any differences should be promptly investigated and resolved).

Procurement

How Should Town Officials Procure Goods and Services?

Boards and highway superintendents are to ensure that highway purchases are appropriate town expenditures and comply with New York State General Municipal Law² (GML) requirements. GML further requires the board to adopt a written procurement policy (policy) for the purchase of goods and services that do not have to be competitively bid.³ The policy should outline when town officials should use alternative competitive methods and require adequate documentation of actions taken. These methods can include competitive bidding, sending out requests for proposals for professional services and obtaining written and verbal quotes. GML also allows for the town to procure goods from contracts bid by other governmental entities. The board should review the policy annually and update as necessary.

Town Officials Could Improve Procurement Procedures

The Town's procurement policy is dated March, 1996 and has competitive bidding dollar thresholds of \$10,000 for purchase contracts and \$20,000 for public works contracts.⁴ The policy also requires all purchases for more than \$500 to have some form of quote, either verbal or written, to ensure the Town receives good value for its purchases. We found Town officials were generally unaware of the policy requirements.

We reviewed 12 purchases totaling \$727,000 paid to vendors for goods or services that required action based on GML or the Town's policy and found the Town appropriately purchased through competitive bidding, County or New York State contracts. We also determined they paid appropriate contract prices.

We also reviewed 22 purchases totaling \$16,000 that were below competitive bidding thresholds, to determine if the Town sought competition in accordance with the Town's policy. Although the Superintendent told us that he called different vendors for the best price, he did not maintain documentation for written or verbal quotes.

Although we found these purchases to be legitimate Town expenditures, when the Board does not update its policies, including requirements for maintaining quotes or bids, it cannot be certain that goods and services are procured in the most economical way and in the best interest of taxpayers.

² GML, Section 103

³ GML, Section 104-B

⁴ GML, Section 103 was updated in 2010 and increased the thresholds to \$20,000 for purchase contracts and \$35,000 for public works contracts.

What Do We Recommend?

The Board should:

4. Update its procurement policy.
5. Ensure that the Superintendent maintains records of quotes obtained for purchases.

The Superintendent should:

6. Document quotes obtained to ensure purchases are made in the most economical way.

Appendix A: Response From Town Officials

Town of Fremont
P.O. Box 69
Fremont Center, N.Y. 12736
845-887-6605

Ann C. Singer, Chief Examiner
Suite 1702 44 Hawley St.
Binghamton, N.Y. 13901-4417

Re: Town Audit

This letter is to address your concerns pertaining to your audit findings. The town has addressed all of your findings. As of 1-9-19 at our organizational meeting we adopted and updated procurement policy as well as our code of ethics and sexual harassment policies.

Starting in February of this year the superintendent is keeping a log of quotes on purchases as per our newly adopted procurement policy. The superintendent is also taking a weekly inventory of the fuel usage so as to compare with the amt. of fuel purchased.

The audit points out that there is not adequate documentation of Inventory that is retired or procured, The board will be updating the inventory list on a quarterly basis (or as procured) and documentation in the minutes of the meetings will be more detailed in regards to inventory.

In closing this response/corrective action letter was approved and adopted by the board at our 5-08-19 meeting. Also we would like to say it was a pleasure to work with your auditors as they were helpful and seemed to believe in their jobs.

Sincerely,

George E. Conklin III
Supervisor Town of Fremont

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 the Town's highway operations, internal controls over assets, policies and procedures, purchasing activities and oversight of the highway operations.
- We randomly sampled 39 pieces of equipment to determine whether the Town's inventory list was up-to-date as well as in the Town's possession. We also randomly selected eight pieces of equipment observed in the highway garage to determine if they were recorded on the Town's inventory list.
- We judgmentally sampled three months of fuel purchases totaling \$11,200 to determine whether fuel is being monitored and if the fuel was purchased at NYS contract prices.
- We randomly sampled 22 purchases totaling \$16,000 made by the highway department to determine whether the purchase was made in accordance with Town policy and was made at the lowest cost.
- We judgmentally selected all 12 checks greater than \$10,000 or more totaling \$727,000 to determine whether the purchase was properly procured through Town, County or NYS contract.

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

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

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