



Three Village Central School District Fuel Inventories

Report of Examination

Period Covered:

July 1, 2014 – July 31, 2015

2015M-271



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their district's resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts 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 district operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Three Village Central School District, entitled Fuel Inventories. 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 district 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 Three Village Central School District (District) is located in the Town of Brookhaven in Suffolk County. The District is governed by the Board of Education (Board) which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with the Assistant Superintendent for Business and other administrative staff, for day-to-day District management under the Board's direction.

The District operates eight schools with approximately 6,700 students and 1,930 full and part-time employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$189.5 million, which are funded primarily with real property tax, State aid and grants. The Director of Maintenance and Operations is responsible for the District's fuel inventory management, under the Board's direction. The District maintains two underground storage tanks, a 2,500 gallon tank for diesel fuel and a 2,500 gallon for gasoline. The District's fuel expenditures for the 2014-15 fiscal year were about \$68,800.

Objective

The objective of our audit was to determine if the District has properly accounted for fuel inventories. Our audit addressed the following related question:

- Did the District adequately monitor fuel inventories and maintain complete fuel inventory records to safeguard its fuel assets?

Scope and Methodology

We examined the District's fuel inventory procedures and records for the period July 1, 2014 through July 31, 2015.

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 based upon 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.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3) (c) of the New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. 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. The Board should make the CAP available for public review in the District Clerk's office.

Fuel Inventories

District officials are responsible for designing controls over fuel use to ensure fuel inventories are safeguarded and protected against the risk of loss, waste and misuse, and inventory records are properly maintained and reconciled periodically. The Board should establish policies and procedures to provide reasonable assurance that gasoline and diesel fuel purchased and consumed are used for their intended purposes and accounted for. District officials should ensure fuel inventory records are properly reconciled to delivery and usage records and that material discrepancies are investigated and resolved. It is also important for District officials to adequately segregate duties to ensure no one individual has complete control over the fuel inventory system without adequate management oversight. Finally, gasoline and diesel fuel inventories should be maintained in locked or controlled environments and usage should be tracked by vehicle/equipment and users.

District officials use two computerized fuel management systems, one to account for fuel inventory by tracking fuel deliveries and usage and the other to monitor fuel tank integrity and leakage. The computerized management system for fuel inventory captures fuel transactions for two fuel pumps through the use of designated fuel keys assigned to vehicles, equipment and fuel cans. The activity data captured by the system includes the key number, vehicle/equipment, employee's unique personal identification number (PIN), odometer reading, date, time, total fuel dispensed and pump number.

Each day, buildings and grounds personnel print a report of fuel tank balances from a fuel tank monitoring system and physically measure each tank with a dipstick and manually record the information on a form with the date, time, tank level in inches and pump meter number. This report is forwarded to the senior clerk typist who is responsible for the fuel inventory management system. This individual normally prints a daily usage report and attaches fuel tank printouts and tank readings to the report, then files it without review.

Although District officials use a computerized fuel inventory management system, they need to improve their oversight of fuel use. The Board has not ensured that policies and procedures are in place to control fuel assets. District officials do not review fuel transaction reports generated from the computerized fuel inventory system or reconcile fuel purchased to fuel consumed to identify anomalies regarding quantities dispensed, fueling times and vehicle or equipment used. As a result, the District's fuel inventory record was

overstated by 452 gallons of gasoline and 297 gallons of diesel fuel, with a total value of \$1,725. In addition, District officials assigned one employee to manage the District's fuel inventory system with limited or no management oversight. Finally, records for 34 of the 95 keys used to dispense fuel have been erroneously deleted and the cameras installed at the District do not provide a view of the license plates of the vehicles being fueled.

Records and Reconciliation — Despite the use of a fuel inventory management system, neither the Director of Maintenance and Operations nor the Assistant Superintendent for Business reviewed fuel transaction reports to monitor inventory, daily fuel levels and activity on a monthly basis or ensured a reconciliation was performed to account for all fuel purchased and consumed. We performed a reconciliation for 2014-15 and found the District's fuel inventory record to be overstated by 452 gallons of gasoline and 297 gallons of diesel fuel for a total overstatement of \$1,725.¹ We also compared the total of daily fuel usage reports for the fiscal year to an annual summary fuel usage report and found the records did not agree. Gasoline and diesel fuel were understated by 345.6 gallons and 148.6 gallons, respectively, in the annual summary fuel usage report. District officials could not explain the discrepancies. We also found that the recording time of each fuel transaction in the fuel inventory management system was inaccurate by about two hours. As a result, District officials could not determine an accurate time the fuel activity took place, thus reducing the reliability of fuel usage reports to identify suspicious activity.

Because District officials do not reconcile fuel inventory records to delivery and usage records, these differences were not documented, investigated and corrected. As a result, District officials do not have adequate assurance that all fuel purchased and consumed is being recorded accurately and accounted for.

Segregation of Duties — District officials assigned the senior clerk typist to be responsible for managing the District's fuel inventory, which includes having administrator access to the fuel inventory system, making key assignments, ordering and posting fuel delivery transactions and printing reports. District managers provide limited or no oversight of the senior clerk typist's activities. The Director of Maintenance and Operations does not ensure that fuel reconciliations are performed and does not review fuel transaction reports to identify unusual transactions. Control by one individual over the fuel inventory system, including the ability to assign keys for vehicles, equipment

¹ The average prices for gasoline and diesel fuel purchased for 2014-15 were \$2.30 and \$2.31.

and cans could allow for usage records to be compromised, deleted and manipulated to conceal unauthorized activities or unaccounted for fuel.

Fuel Keys— Fuel key assignments are important to affix responsibility to individuals and provide control over fuel consumption. The senior clerk typist is responsible for assigning fuel keys which can be programmed to restrict the maximum quantity of fuel dispensed for each transaction. District officials provided a list of key assignments that listed keys numbered from 1 to 95. However, 34 keys were deleted or missing from the list and 19 keys were locked (disabled), while 42 keys were active. According to the senior clerk typist, the deleted and missing keys and associated records were erroneously deleted. The locked keys were disabled because the keys are made of plastic and wear out over time and needed to be replaced. Fuel records associated with locked keys are retained in the fuel inventory management system and can be reviewed and printed.

An employee can use an assigned key once a four-digit PIN is created in the fuel inventory system. The keys are coded with fuel dispensing limits. For example, a vehicle key may have a 25 gallon limit per filling and keys for fuel cans may have a 10 gallon limit. The limit does not apply to the number of fillings that can occur during a day. To use fuel pumps, employees are required to input their PINs and, if required, an odometer reading (for vehicle keys) to activate and dispense fuel. Employees are required to secure their PINs and not disclose them.

We reviewed key usage for vehicles assigned to five employees² and found no irregularities. However, the keys assigned to two employees who are allowed to take their vehicles home do not require the employees to input the odometer reading prior to dispensing fuel. In addition, District officials did not request daily fuel usage reports to review for anomalies of fuel dispensed. This lack of review could allow employees to use the keys to fuel unauthorized or wrong vehicles, equipment and fuel cans. This also limits the ability of District officials to determine how much fuel each department's vehicle, equipment or fuel can used during the year.

Security of Fuel Station — The District has two fuel pumps which are located behind the administrative building in an ungated fenced-in area with a partially obstructed view from the road. Fuel pumps are available 24 hours a day, seven days a week. The District has security cameras located on the Administrative building.

² Former Director of Maintenance and Operations, head of security, head of grounds, Director of Maintenance and Operations and District plumber

Although the distance and angle of the cameras could provide a view of the fueling of vehicles and equipment, the view does not allow for the identification of license plates. Although the District has roving security patrols that require fueling at the start of each shift change, the lack of security at the fuel pumps can lead to keys being compromised and unauthorized vehicles being fueled.

Recommendations

The Board should:

1. Ensure policies and written procedures are in place to adequately control the District's fuel assets.
2. Request and review fuel reconciliations on a periodic basis.

The Director of Maintenance and Operations should:

3. Review fuel transaction reports to periodically monitor inventory, daily fuel levels and activity to identify unusual transactions.
4. Ensure fuel reconciliations are performed on a periodic basis.
5. Review the fuel time recorded by the fuel inventory management system and adjust accordingly.
6. Ensure that the senior clerk typist's duties are adequately segregated or implement compensating controls such as enhanced supervisory review of the senior clerk typist's work.
7. Review the daily key usage activity reports on a regular basis.
8. Assign an individual outside the fuel inventory management function the responsibility of key assignment.
9. Ensure that keys are not deleted from the list of key assignments and their associated records are not deleted from the system.
10. Ensure that all keys assigned to District vehicles require odometer readings to be entered prior to dispensing fuel.
11. Address any physical security concerns of the fueling station, such as considering relocating cameras.

The Assistant Superintendent for Business should:

12. Periodically review fuel transaction reports for unusual activities.
13. Periodically review fuel reconciliations.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



The mission of the Three Village Central School District, in concert with its families and community, is to provide an educational environment which will enable each student to achieve a high level of academic proficiency and to become a well-rounded individual who is an involved, responsible citizen.

THREE VILLAGE
CENTRAL SCHOOL DISTRICT

December 22, 2015

Ira McCracken, Chief Examiner
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, NY 11788-5533

Dear Mr. McCracken:

The Three Village Schools would like to thank the Office of the State Comptroller for their time and effort in performing a very detailed and thorough review of our fuel inventory management. We are always looking for ways to improve our internal controls and your audit has identified an opportunity for us to address this issue. Prior to your audit, we had asked our Internal Auditor to review our fuel inventory management procedures in order to strengthen our internal control over this area. Your audit findings and recommendations will be of great assistance in establishing new procedures in safeguarding our fuel assets.

Our Corrective Action Plan will be developed with the Board of Education's Audit Committee, District Administration and our Internal Auditor, and filed with your office and the New York State Commissioner of Education.

We would like to thank you, once again, for the time and effort put into this audit, and the professionalism of your audit team.

Sincerely,

Cheryl Pedisich
Superintendent of Schools

Jeffrey Carlson
Asst. Superintendent for Business Services

Cheryl Pedisich, Superintendent of Schools
Jeffrey Carlson, Assistant Superintendent, Business Services
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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if the District has properly accounted for fuel inventories from July 1, 2014 through July 31, 2015. To accomplish our objective and obtain valid audit evidence, we performed the following procedures:

- We interviewed District officials and employees of the buildings and grounds department to obtain an understanding of the fuel management systems, including fuel key authorization and fuel dispensing procedures.
- We interviewed the Assistant Superintendent for Business to determine if fuel purchases were reconciled to fuel use. We obtained and reviewed fuel purchases made and gallons delivered.
- We interviewed building and grounds personnel to get an understanding of the day-to-day processes.
- We obtained fuel transaction reports, key assignments and vehicle inventory lists for the 2014-15 fiscal year.
- We performed a fuel reconciliation for 2014-15 because the District had not performed a reconciliation of fuel for several years. We used fuel delivery tickets from vendors and the District's fuel usage reports. We compared our calculated end of fiscal year total to the last fuel inventory report of the year.
- We added the total daily fuel usage reports for the fiscal year and compared them to an annual fuel usage report.
- We traced fuel purchases to accounting records, purchase orders and invoices to determine the accuracy of data.
- We performed reasonableness testing for key assignments to determine if keys were being used for their intended purpose.
- We reviewed key usage for all five employees who were allowed to take vehicles home during our audit period.
- We performed a physical inspection of the fuel station and surrounding area to identify security concerns.

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 objective.

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