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OFFICE OF THE
NEW YORK STATE COMPTROLLER

DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY

LONG ISLAND POWER AUTHORITY

VEHICLE ACQUISITION, USE AND DISPOSITION

Report 2006-S-114

AUDIT OBJECTIVES

Our objectives were to (1) determine whether the Long Island Power Authority (LIPA) complied with requirements for the procurement, use and disposition of its vehicles, and (2) account for all the vehicles owned and leased by LIPA.

AUDIT RESULTS - SUMMARY

LIPA is the primary supplier of electricity on Long Island. To support its operations, LIPA has a large fleet of cars and light-duty trucks.

We found that certain improvements are needed in the controls over LIPA's acquisition, use and disposition of vehicles. For example, LIPA does not always use available State contracts when purchasing vehicles, and as a result, may pay higher prices than necessary on some of its vehicles. LIPA also needs written policies and procedures to provide assurance its interests are adequately protected when its vehicles are disposed of by a private company.

When we tried to account for the vehicles registered under LIPA's name, we identified a number of discrepancies between LIPA's inventory records and the records maintained by the State Department of Motor Vehicles. Most of these discrepancies were caused by errors in LIPA's inventory records, and we recommend that certain steps be taken to eliminate such errors. We also noted that several of LIPA's vehicles did not have a logo identifying them as LIPA's property. We recommend such logos be added.

Our report contains eight recommendations for improving vehicle management at LIPA. LIPA officials agreed with most of our recommendations and have taken, or will take, steps to implement them.

This report, dated June 26, 2007, is available on our website at: http://www.osc.state.ny.us. Add or update your mailing list address by contacting us at: (518) 474-3271) or
Office of the State Comptroller
Division of State Government Accountability
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Albany, NY 12236

BACKGROUND

The Long Island Power Authority (LIPA) was created by the State Legislature in 1986 to reduce utility rates on Long Island, which were among the highest in the nation at the time, and to acquire and decommission the Shoreham Nuclear Power Plant, which was partly responsible for the high rates. In May 1998, LIPA acquired the electrical transmission and distribution system of the Long Island Lighting Company (LILCO), as well as certain other assets, and became the primary supplier of electricity on Long Island. LILCO's remaining assets, including its electrical generating facilities, were merged with Brooklyn Union Gas, creating a new utility called KeySpan.

LIPA has entered into a number of long-term contracts with KeySpan. Under these contracts, KeySpan supplies electricity to LIPA, operates LIPA's electrical distribution system, and collects payments from LIPA's customers. LIPA has a relatively small number of employees and relies on KeySpan and other contractors to operate, maintain and oversee Long Island's electrical distribution system. This system delivers electricity to nearly 1.1 million customers on Long Island.

To support its operations, LIPA has a large fleet of about 600 cars and trucks. Most of these vehicles are assigned to KeySpan under the long-term contracts between the two utilities. However, some of the vehicles are assigned to LIPA's corporate headquarters. Most of the vehicles are leased by LIPA.

AUDIT FINDINGS AND RECOMMENDATIONS

Vehicle Accountability

To account for all the vehicles owned and leased by LIPA, we obtained from LIPA (1) a listing of all the vehicles assigned to KeySpan and (2) a listing of all the vehicles assigned to LIPA's corporate headquarters. According to these listings, a total of 585 vehicles were assigned to KeySpan and 15 vehicles were assigned to LIPA's corporate headquarters. The vehicles assigned to KeySpan were either owned outright by LIPA or leased through capital leases. In either case, the vehicles should have been registered with the New York State Department of Motor Vehicles (DMV) under LIPA's name.

To determine whether all the vehicles assigned to KeySpan were, in fact, registered with DMV, we obtained from DMV a listing of all the vehicles currently registered in LIPA's name. We then compared this listing to the listing of vehicles assigned to KeySpan. We identified a number of discrepancies between the two lists. Most of these discrepancies were caused by errors in LIPA's inventory records (e.g., digits were transposed in the vehicle identification numbers). However, in once instance, the discrepancy appeared to be the result of an error by DMV, as LIPA officials showed us documentation indicating that a vehicle not on DMV's listing had in fact been registered with DMV.

We concluded that all the vehicles assigned to KeySpan probably were registered with DMV. However, to ensure LIPA's vehicle inventory records are accurate and complete, we recommend LIPA annually compare the records against DMV's records of the vehicles registered in its name, and reconcile any discrepancies. This annual reconciliation could be done by KeySpan's internal audit department.

We also performed a physical verification of all 15 vehicles assigned to LIPA's corporate headquarters and 50 of the vehicles assigned to KeySpan. We randomly selected the 50 vehicles from the listing provided by LIPA. We were able to physically verify the existence of 61 of the 65 vehicles. We were not able to physically verify the other four vehicles without unduly disrupting LIPA's operations. Various documentation made available to us by LIPA and KeySpan officials gave us reasonable assurance the vehicles did, in fact, exist and were being used for official purposes.

LIPA's vehicles should be marked with its corporate logo to promote appropriate use by LIPA and KeySpan personnel and to facilitate the reporting of any improper use that is observed by the public. However, during our physical verification of the vehicles, we found that several vehicles were not marked with LIPA's logo. Most of the unmarked vehicles were assigned to LIPA executive staff.

LIPA officials agreed that all service vehicles should be marked with the LIPA logo. They also stated that, in emergencies, a temporary logo could be affixed to non-service vehicles. However, we believe that either a logo or LIPA's name should permanently be affixed to all LIPA vehicles, regardless of whether they are service vehicles used by staff or non-service vehicles used by executives.

Policies and Procedures

According to Section 2879(1) of the Public Authorities Law, the board of directors for each public authority must review and approve the authority's procurement guidelines annually. We reviewed the minutes for the meetings of the LIPA Board of Trustees (Board) and saw resolutions indicating that LIPA's Procurement Guidelines were formally reviewed and approved. However, the latest such resolution was dated March 24, 2004. As a result, at the time of our review in August 2005, more than one year had passed since the Board had approved LIPA's Procurement Guidelines. We recommend such approval be provided on an annual basis, as required by Law.

Goods acquired through the procurement contracts administered by the New York State Office of General Services (OGS) generally cost less than goods acquired directly from vendors, because of the volume discounts that are available through these contracts. The procurement guidelines of some public authorities state that OGS contracts should be used whenever possible as long as product quality, delivery time, quantity, and price are equal to or better than what can be obtained locally. However, LIPA's Procurement Guidelines contain no such requirement and, in fact, do not mention OGS contracts at all.

During our audit period, LIPA acquired 21 new vehicles. Ten of the vehicles were purchased and eleven were acquired through capital leases. Only four of the ten purchases were made through OGS contracts. As a result, the price paid by LIPA in the other six purchases may have been higher than necessary. We recommend LIPA amend its Procurement Guidelines to require the use of OGS contracts as long as product quality, delivery time, quantity, and price are equal to or better than what can be obtained locally.

In their response to our preliminary audit findings, LIPA officials stated that all future purchases of vehicles would be made through OGS contracts.

In October 2001, an in-house LIPA study entitled *Fleet Vehicles: Purchase versus Lease* concluded that it might be less costly for LIPA to purchase, rather than lease, its vehicles. The study recommended that LIPA begin purchasing fleet vehicles and "review conditions periodically to ensure that [its acquisition] assumptions remain valid." As was noted previously, about half the new vehicles acquired by LIPA during our audit period were purchased and about half were leased. We asked LIPA officials for documentation justifying their reasons for still leasing vehicles when their study indicated that purchases might be less costly. The officials stated that the likely savings were not significant, but provided no documentation to support this statement.

We recommend LIPA take the action recommended by its own study (i.e., review market conditions periodically to determine whether its assumptions about leasing and purchasing new vehicles remain valid). We further recommend that LIPA document the results of these periodic analyses.

Alternative Fuel Vehicles

Executive Order 111 (EO 111), issued June 10, 2001, requires most State agencies and public authorities (including LIPA) to reduce their energy consumption by some 35 percent and to begin to shift their procurement of light-duty vehicles (cars and light trucks weighing less than 8,500 pounds) from traditional fuels (gasoline and diesel) to alternative fuels such as electricity, compressed natural gas, 85 percent ethanol, etc. EO 111 specifically requires that, by 2005, at least 50 percent of an agency's new light-duty vehicles must use alternative fuels, with a goal of 100 percent by 2010.

We examined LIPA's acquisitions of new light-duty vehicles to determine whether they complied with EO 111. We determined that the 12 vehicles, all assigned to KeySpan, use alternative fuels. However, no plans were initiated to follow such requirements for the vehicles assigned to LIPA executives at their headquarters office. We noted that only 4 out of the 15 vehicles at headquarters use alternative fuels.

Personal Use of LIPA Vehicles

At KeySpan, vehicles may be assigned to certain employees because of "the on-call nature of their position" (e.g., they may be required to respond to emergencies at any time of day). These employees are allowed to drive the assigned vehicles to and from work, but all other personal use of the vehicles is prohibited. The assignment of the vehicles must be approved by the appropriate KeySpan manager.

To determine whether these vehicle assignments were justified, we asked for documentation of the actual "on-call" incidents involving these employees. We found KeySpan maintains no such documentation. For example, there are no vehicle activity logs recording the vehicles' mileage/trips, and no other records of the vehicles' business use. We recommend KeySpan be required to maintain such records and LIPA review the records to ensure that all the vehicle assignments are in fact necessary.

At LIPA, vehicles were only assigned to executive staff by LIPA's Chairman. We also found that the Chairman, who is an employee of LIPA, had an assigned vehicle. Personal use of these vehicles is not prohibited by LIPA. The Internal Revenue Service (IRS)

has determined that personal use of an employer-provided vehicle, including its use for commuting, should be considered income to the employee, and has issued guidelines for the calculation of this income.

We found LIPA follows these guidelines for the assigned vehicles, as it calculates the income that should be credited to its employees for their personal use of these vehicles. LIPA maintains records for the assigned vehicles that show a breakdown of annual mileage usage - personal and business miles, gasoline charges, maintenances, etc., as well as the amount of income added to the employee's W-2 form because he or she had personal use of the vehicle.

However, LIPA also has other "pool" vehicles that are not assigned to particular employees, and we found the IRS guidelines were not followed for these vehicles. Specifically, we found that some employees took pool vehicles home - for several days on occasion - and reported no income related to their use for commuting. We recommend LIPA review the personal usage of pool vehicles, determine to what extent the usage constitutes a taxable benefit, and include that benefit on the affected employees' income statements for tax purposes. We further recommend LIPA revise its vehicle usage policy to prohibit the personal use of pool vehicles. LIPA officials agreed with our recommendation.

Surplus Vehicle Sales

LIPA leases most of its vehicles, and has a routine process for disposing of the vehicles at the end of the lease. Specifically, LIPA surrenders the license plates to DMV and returns the vehicles to the leasing company. The leasing company then holds an end-of-lease auction, and remits to LIPA all the proceeds from these sales (less certain processing costs) that exceed the estimated book value of the vehicles.

Such routine processes should be formalized in written policies and procedures. However, LIPA has no written policies and procedures for the disposition of its vehicles (whether leased or purchased). As a result, there is less assurance the disposition process is properly understood by LIPA's employees and LIPA's interests are adequately protected when vehicles are disposed of. We note that neither LIPA nor KeySpan has a checklist or any other written record listing the documentation LIPA should receive when its vehicles are sold by the leasing company (such as documents confirming that the licenses plates were in fact surrendered to DMV, or documents showing the sale amounts). LIPA officials agreed to develop written policies and procedures for the disposition of their vehicles.

We also identified two instances in which vehicles were not disposed of in a public auction. In one instance, the vehicle was purchased by KeySpan; in the other, it was sold directly to a LIPA executive. In neither instance did LIPA ensure that a fair price was received for the vehicle. For example, the vehicle purchased by the executive had been placed in service in February 2001, with a cost to LIPA of $15,708. Sixteen months later, with a total mileage of 18,935, it was sold to the executive for $9,173, which appeared to be the remaining cost of the vehicle's lease. However, the vehicle's fair market value may have been higher. We recommend LIPA adhere to its procedures that require vehicles be disposed of in public sales. LIPA agreed to prohibit the selling of its vehicles directly to its employees.

Recommendations

1. Annually compare LIPA's vehicle inventory records against DMV's records of the vehicles registered in LIPA's name, and reconcile any discrepancies.

2. Mark all vehicles (service and non-service) with either a recognizable logo or LIPA's name.

3. Comply with the requirement in the Public Authorities Law requiring annual Board approval of the Procurement Guidelines.

4. Amend the Procurement Guidelines to require the use of OGS contracts as long as product quality, delivery time, quantity, and price are equal to or better than what can be obtained locally, and make vehicle purchases in accordance with these guidelines.

5. Review market conditions periodically to determine whether LIPA's assumptions about leasing and purchasing new vehicles remain valid, and document the results of these analyses.

6. Require that KeySpan maintain vehicle activity logs for vehicles assigned to its employees, and periodically review the logs to ensure that the vehicle assignments are necessary.

7. Review the personal usage of pool vehicles, determine to what extent the usage constitutes a taxable benefit, and include that benefit on the affected employees' income statements for tax purposes. Revise the vehicle usage policy to prohibit the personal use of pool vehicles.

Recommendations (Cont'd)

8. Develop written policies and procedures for the disposition of LIPA's vehicles, and in these policies and procedures, require that all vehicles be sold in an open and public process, such as an auction.

AUDIT SCOPE AND METHODOLOGY

We audited selected aspects of LIPA's procurement, use and disposition of its vehicles for the period May 1, 2002 through August 31, 2005. To accomplish our audit objectives, we interviewed LIPA and KeySpan officials, and reviewed records, documents and reports maintained by LIPA and KeySpan. We also compared LIPA's vehicle inventory records to vehicle registration records maintained by the New York State Department of Motor Vehicles; performed a physical verification of selected vehicles at LIPA and KeySpan; reviewed the minutes for the meetings of the LIPA Board of Trustees; verified whether LIPA's Procurement Guidelines were followed; reviewed LIPA's compliance with Executive Order 111 (regarding alternative-fuel vehicle procurement); reviewed LIPA's compliance with IRS guidelines concerning income reporting for the personal use of employer-provided vehicles; and reviewed the disposition of surplus vehicles. We conducted our audit in accordance with generally accepted government auditing standards.

This report is one in a series of reports at different New York State public authorities addressing the authorities' acquisition, use and disposition of vehicles not used in revenue-generating activities.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated

duties as the chief fiscal officer of New York State, several of which are performed by the Office of Operations. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for the purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

This audit was performed pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution, and Section 2803 of the Public Authorities Law.

REPORTING REQUIREMENTS

A draft copy of this report was provided to LIPA officials for their review and comment. Their comments were considered in preparing this final audit report, and are included as Appendix A. LIPA officials agreed with most of our recommendations and have taken, or will take, steps to implement them. They did not agree to place a LIPA logo on non-service vehicles.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chairman of the Long Island Power Authority shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include Carmen Maldonado, Robert Mehrhoff, Santo Rendon, Joseph F. Smith and Dana Newhouse.

APPENDIX A - AUDITEE RESPONSE

Mr. Mehrhoff,

Attached please find LIPA's response to the Vehicle Acquisition, Use and Disposition audit performed by your office.

Thank you for the one week extension of time to file our response.

Should you have any questions, please feel free to contact me at 516-719-9880.

Kenneth Kane LIPA Response OSC Vehicle Audit .doc

Response of the Long Island Power Authority ("LIPA")
to
Draft Audit Report "Vehicle Acquisition, Use and Disposition"
("the Report")
Office of the State Comptroller ("OSC")
dated March 26, 2007

LIPA has carefully reviewed the Report and notes that the Report does not identify significant weaknesses in LIPA's vehicle acquisition, use and disposition policies and practices. Instead, the Report provides recommendations to LIPA to enhance its practices and policies, many of which LIPA concurs with, as noted below.

With respect to your recommendations:

Recommendation #1. *Annually compare LIPA's vehicle records against DMV's records of the vehicles registered in LIPA's name, and reconcile any discrepancies.*

LIPA Response: LIPA concurs with this suggestion, and will instruct KeySpan's internal audit department to schedule such an audit, assuming that LIPA is provided a listing of vehicles from the DMV. LIPA has requested the KeySpan internal audit schedule a physical inventory of LIPA registered vehicles assigned to KeySpan, and that such work include a review of documentation to ensure proper recordkeeping related to these vehicles.

Recommendation #2. *Mark all vehicles (service and non-service) with either a recognizable logo or LIPA's name.*

LIPA Response: As noted in the Report, LIPA agrees that all service vehicles should be clearly marked with a LIPA logo to provide for ease of identification by customers, emergency services personnel, and field support personnel. For non-service vehicles assigned to LIPA officers and those identified as fleet vehicles for LIPA headquarters staff, we do not agree that the addition of a LIPA logo would further promote the appropriate use by LIPA or KeySpan personnel. We believe that the LIPA Vehicle Use Policy (which was reviewed by the auditor during this engagement), clearly states the appropriate use of such vehicles by LIPA personnel and provides sufficient incentive to promote appropriate use.

LIPA is in the process of obtaining magnetic signage for each non-service vehicle so that in the case of an emergency where LIPA officials are needed to respond, such signage could easily be affixed to any vehicle to assist in identification during such situations.

Recommendation #3. *Comply with the requirements in the Public Authority Law requiring annual Board approval of the Procurement Guidelines.*

LIPA Response: LIPA concurs with this recommendation

Recommendation #4. *Amend the Procurement Guidelines to require the use of OGS contracts as long as product quality, delivery time, quantity, and price are equal to or better than what can be obtained locally, and make vehicle purchases in accordance with these guidelines.*

LIPA Response: LIPA concurs with this recommendation.

Recommendation #5.*Review market conditions periodically to determine whether LIPA's assumptions about leasing and purchasing new vehicles remain valid, and document the results of these analyses.*

LIPA Response: LIPA concurs with this recommendation and is currently updating this analysis.

Recommendation #6. *Require that KeySpan maintain vehicle activity logs for vehicles assigned to its employees, and periodically review the logs to ensure that the vehicles assignments are necessary.*

LIPA Response: LIPA concurs with this recommendation, and has supplied KeySpan with a sample log book to be distributed to their staff and maintained as recommended. The review of these logs will be incorporated into the KeySpan Internal Audit review discussed above under Recommendation 1.

Recommendation #7. *Review the personal usage of pool vehicles, determine to what extent usage constitutes a taxable benefit, and include that benefit on the affected employees' income statement for tax purposes. Revise the vehicle usage policy to prohibit the personal use of pool vehicles.*

LIPA Response: In 2006 LIPA implemented policy changes to address personal use of pool vehicles ensuring that where appropriate, when considering the time and location of the event for which the pool vehicle is used, personal usage that constitutes a taxable benefit is captured and included on the employee's W-2.

Recommendation #8. *Develop written policies and procedure for the disposition of LIPA's vehicles, and in these policies and procedures, require that all vehicles be sold in an open and public process, such as an auction.*

LIPA Response: It is LIPA's practice to return vehicles to the leasing company at the end of the lease term, where the vehicle is then sold at auction. LIPA will formalize this practice in a policy to be submitted to the officers for approval.