



Herricks Union Free School District

Fuel Card Purchases

Report of Examination

Period Covered:

July 1, 2012 — February 28, 2014

2014M-321



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2015

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts 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 districts' 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 district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Herricks Union Free School District, entitled Fuel Card Purchases. 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 Herricks Union Free School District (District) is located in the Town of North Hempstead, Nassau County. The District is governed by the Board of Education (Board) which comprises five 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 other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates five schools with 3,917 students and 1,141 employees. The District's budgeted appropriations for the 2013-14 fiscal year were \$104.6 million, funded primarily with State aid, real property taxes and grants.

Since May 2013, the District has purchased fuel for its vehicle fleet through a State contract. Previously, the District purchased fuel from a different vendor through a cooperative bid with another school district. The Transportation Department's vehicle fleet consists of 22 buses for transporting students to and from school and District-sponsored events. The Facilities Department's fleet consists of 11 vehicles for its grounds and maintenance staff.

Objective

The objective of our audit was to examine the District's fuel card purchases. Our audit addressed the following related question:

- Did District officials monitor fuel card purchases to ensure that fuel costs were appropriate and purchases were used only for District vehicles and equipment?

Scope and Methodology

We examined the District's fuel card purchases for the period July 1, 2012 through February 28, 2014.

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing and payroll and personal services. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the fuel purchase card area, and, therefore, we examined internal controls over fuel card purchases for the period July 1, 2012 through

February 28, 2014.

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 is included in Appendix B of this report.

**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 agreed with our findings and indicated they plan 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 Card Purchases

Written fuel card policies and procedures can help ensure that costs associated with fuel purchases are appropriate, purchases are properly supported and fuel is used for legitimate District purposes. Because school districts and local governments are exempt from sales tax, motor fuel tax and State excise tax, officials must ensure that they do not inappropriately pay these costs. If fuel cards' costs are not properly monitored, the District may spend more on fuel than necessary and fuel may be used inappropriately.

While District officials generally had effective controls over the use of District fuel cards, they inappropriately paid more than \$11,000 in federal, State and local taxes on fuel purchases. By paying these taxes on its fuel purchases, the District incurred unnecessary costs.

Sales and Fuel Tax

School districts and local governments are exempt from paying New York State taxes when purchasing motor fuel and diesel motor fuel. To avoid unnecessary costs, it is important that officials monitor vendor contracts and invoices to ensure that they do not inappropriately pay these taxes.

During our audit period, the District purchased \$90,595 of fuel from its previous vendor (Vendor 1) and \$108,629 from its current fuel vendor (Vendor 2). We found that the District incorrectly paid a total of \$7,588 in State taxes and \$3,736 in local taxes in its fuel purchases from Vendor 1.¹ The District's contract with Vendor 1 did not provide for New York State and local sales tax exemptions. The contract required the District to file for its own refunds for the taxes paid. However, District officials did not do so.

The District also incorrectly paid federal, State and local sales taxes on all fuel purchases from Vendor 2. However, District officials could not determine the exact amount of sales taxes the District paid on its fuel purchases with Vendor 2 because the vendor's invoices did not provide enough detail to show what taxes were applied. Vendor 2 billed the District for fuel purchases at the pump price, which included all taxes. Vendor 2 applied a State contract discount to the invoice total but did not deduct taxes because the District did not complete the required tax exemption forms.²

¹ The District did not pay federal excise tax on purchases from Vendor 1.

² The District's contract with Vendor 2 requires that the District certify its tax exempt status by completing specific tax exemption forms required by the Internal Revenue Service and the New York State Department of Taxation and Finance.

District officials were unaware that they were being charged these taxes on their fuel purchases from both vendors. By paying taxes on its fuel purchases, the District spent more money on fuel than necessary.

Monitoring Card Usage

Monitoring fuel credit cards helps to ensure that the cards are used properly. An effective credit card policy should clearly articulate the Board's expectations for fuel credit card usage. It is important that the policy identify who is authorized to use the cards, describe the types of purchases allowed and specify the documentation required to support the purchase. Controls such as limiting the amount, type and dollar amount of fuel that can be purchased within a certain time can minimize the risk involved with supplying employees with fuel credit cards. District officials should reconcile fuel receipts for purchases made with fuel credit cards to billing statements issued by the fuel vendor. Integral parts of the reconciliation process include identifying and investigating differences and taking corrective action, when necessary, to resolve differences. Reconciliations should be performed in a timely manner, documented and approved by management.

The Board established a credit card policy that recognizes the necessity of using fuel credit cards to purchase fuel for District vehicles. The Facilities and Transportation Departments each developed procedures for monitoring fuel credit cards and implemented controls over employee use of the cards when purchasing fuel with the District's fuel vendor. These controls included requiring District employees to enter their assigned personal identification number and vehicle mileage when purchasing gasoline. The District also limits fuel purchases to one fill-up per day per employee, not to exceed 60 gallons. In addition, the Transportation Department requires employees to physically sign in and out fuel credit cards, and it maintains these sign in/out sheets on site.

We reviewed fuel purchases made by the Transportation Department totaling \$44,375 and the Facilities Department totaling \$8,677 for four months in our audit period. Except for minor deficiencies that we discussed with District officials during our audit fieldwork, we determined that all District fuel purchases reviewed appeared to be for legitimate District purposes.

Recommendations

The Assistant Superintendent for Business and the Accounting Manager should:

1. File all necessary paperwork to recoup all sales and use taxes paid on the District's fuel purchases during the audit period from its fuel vendors and the New York State Department of Taxation and Finance.

2. Coordinate with the District's current fuel vendor to remove federal, State and local sales and use taxes on future District fuel purchases at the time of invoicing.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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HERRICKS PUBLIC SCHOOLS**

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January 8, 2015

Office of the State Comptroller
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PSU-CAP Submission
110 State Street, 12th Floor
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Chief Examiner of Local Government
and School Accountability
Office of the State Comptroller
110 State Street
Albany, New York 12236

The following is a combined audit response and corrective action plan. It was reviewed and approved by the Board of Education of the Herricks UFSD and the Audit Committee of the Herricks UFSD on January 8, 2015.

At the exit interview, Nancy Feinstein (Board of Education Vice President), Superintendent John Bierwirth, Assistant Superintendent Helen Costigan and Senior Accountant Sufia Yasmin thanked the auditors for their recommendations.

We are pleased that upon your assessment of internal controls you found controls to be adequate and that limited risk existed in the financial areas reviewed.

We accept your two recommendations and have already followed up and implemented your recommendations.

Recommendation #1 - File all necessary paperwork to recoup all sales and use taxes paid on the district's fuel purchased insuring the audit period from its fuel vendors and New York State Department of Taxation and Finance.

1- The district has filed all paperwork necessary to recoup all the taxes for Federal, NYS and Local taxes. All refunds and credits in the total amount of \$29,494.78 were received for the audit period prior to the Comptroller's final report.

Recommendation #2 – Coordinate with the District's current fuel vendor to remove Federal, State and Local sales and use taxes on future district fuel purchases at the time of invoicing.

1- The district completed and reviewed all necessary paperwork with the fuel vendors to insure future tax exempt status.

We appreciated the recommendations provided by the NYS Comptroller's Office and commend your staff for a thorough and professional audit.

Respectfully submitted,

James Gounaris
President, Herricks Board of Education

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing and payroll and personal services.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and professional misconduct. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected fuel card purchases for further audit testing. Our procedures included the following:

- We interviewed District officials to gain an understanding of the District's operations as it relates to fuel purchase cards.
- We reviewed the District's policies and procedures and supporting documentation provided by District officials that were related to fuel purchase cards.
- We judgmentally selected two months with the highest billed amounts for each department and for each fuel vendor to arrive at a sample of four months.
- We compared fuel invoices to necessary supporting documentation per the District's policies and procedures for each sample month.
- We traced all fuel card receipts forward to the final payment check for each sample month.
- We reviewed the number of gallons pumped and number of miles traveled per vehicle for each sample month to determine if usage was reasonable.
- We reviewed all invoices from both fuel vendors in our audit period to determine if applicable sales tax was omitted from the invoice. Where available, we quantified the total amount of sales tax the District paid on its fuel purchases.

- We obtained a copy of a receipt of a recent District fuel purchase and conducted a site visit of the gas station where the District purchases its fuel to confirm whether the fuel price per gallon the District's current fuel vendor charges the District matched the retail pump price.

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

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