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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

February 27, 2015

Mr. James H. Redmond
Chairman
Rochester-Genesee Regional Transportation Authority
1372 East Main Street
Rochester, NY 14609

Re: Fuel Purchases
Report 2014-S-20

Dear Mr. Redmond:

According to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Section 2803 of Public Authorities Law, we examined the fuel purchases by the Rochester-Genesee Regional Transportation Authority (Authority) for the two years ended March 31, 2014. Specifically, we audited whether the Authority is purchasing the correct type of fuel, paying the proper amount for the fuel purchased, receiving the correct amount of fuel, and keeping accurate records of the supply and distribution of fuel.

Background

The Rochester-Genesee Regional Transportation Authority (Authority) provides public transportation services in Monroe, Genesee, Livingston, Orleans, Wayne, Wyoming, and Seneca counties. The Authority consists of the following eight Regional subsidiaries:

- Regional Transit Service, Inc. (RTS)
- Lift Line, Inc. (LL)
- Batavia Bus Service, Inc. (BBS)
- Livingston Area Transportation Service, Inc. (LATS)
- Orleans Transit Service, Inc. (OTS)
- Seneca Transit Service, Inc. (STS)
- Wayne Area Transportation Service, Inc. (WATS)
- Wyoming Transit Service, Inc. (WYTS)

RTS is the Authority's largest subsidiary, maintaining an operating fleet of about 250 buses providing fixed-route service throughout the Greater Rochester area. LL provides para-transit service in Monroe County to people with disabilities who cannot use RTS's fixed-route service. The Authority's six other subsidiaries provide a range of fixed-route, dial-a-ride, para-transit, and

shuttle services to residents living in the six other respective counties. During our scope period, the Authority had contracts with private fuel companies to supply diesel and unleaded regular gas for RTS and LL buses. In addition, the Authority had separate agreements with four counties, a school district, and a private company to supply fuel to its six other regional subsidiaries.

The Authority spent over \$7.5 million and \$7.3 million on fuel in fiscal years 2012-13 and 2013-14, respectively. RTS uses approximately 81 percent of the total fuel purchased by the Authority.

Results of Audit

We found the Authority generally had adequate controls and accountability over fuel procurement, delivery, storage, and usage. However, we identified certain weaknesses in subsidiaries' fuel purchasing and monitoring practices. Further, while we found the Authority purchased the correct type of fuel for buses, it paid more than necessary for fuel at two subsidiaries. We make four recommendations to address the control weaknesses that we identified.

Controls Over Fuel

We found the Authority has established adequate controls over its fuel purchases, deliveries, and storage at RTS and LL, which combined accounted for about 88 percent of the Authority's fuel purchases during our scope period. Both subsidiaries had strong security controls over stored fuel and automated systems in place to track fuel usage. We also found controls were adequate at BBS and OTS. However, we determined fuel procurement and disbursement controls could be improved at LATS, STS, WATS, and WYTS.

Public Authority Law Section 2931 requires State authorities to establish and maintain internal control systems and a program of internal control review. The program should be designed to identify internal control weaknesses, identify actions needed to correct these weaknesses, monitor any corrective actions, and periodically assess the adequacy of ongoing internal controls. To this end, the Authority has developed formal Procurement Guidelines, which require that responsible employees ensure goods are actually received before vendors are paid.

The Authority relies upon each subsidiary to account for its own fuel usage and confirm the accuracy of fuel supplier invoices before payment. However, while LATS, BBS, and OTS reconcile buses' daily fuel consumption logs to the corresponding fuel supplier invoices, STS, WATS, and WYTS do not perform such reconciliations. Furthermore, the manager at LATS who does the reconciliation also has access to the fuel pumps, an inadequate separation of duties that limits the reconciliation's effectiveness. Based upon our discussions with STS, WATS, and WYTS managers, they did not seem to know they were responsible for verifying the accuracy of fuel supplier invoices.

When we attempted to reconcile subsidiaries' fuel consumption logs to fuel supplier invoices ourselves, we found some inconsistencies. For example, STS fuel consumption logs for March 2013 through February 2014 indicate STS buses consumed about 1,660 gallons more fuel

than the amount the Authority was actually billed for. When discussing our reconciliation results, STS management indicated that the fuel supplier had to use estimates when billing the Authority because the fuel pump gauge was faulty. Without a precise way to measure fuel dispensed, they expect such differences will continue to occur because STS employees use the same faulty gauge to account for daily bus refueling amounts.

In another case, WATS fuel consumption logs for January through March 2014 showed that one diesel bus used both gas and diesel. During this time, the logs show this bus consumed 289 gallons of diesel and 1,191 gallons of gasoline costing approximately \$978 and \$3,606, respectively. When we brought this matter to WATS management's attention, they replied that the dual entries were a mistake. Specifically, they said that two fuel pump keys, one for gas and one for diesel, were misclassified under the same diesel bus in the fuel log. Furthermore, they stated that the correct bus has been identified and that the fuel card was reclassified for this bus. Based on additional supporting documentation maintained by WATS (i.e., Daily Driver log), there is assurance that the fuel for the three-month period was used for business purposes.

Before paying invoices, officials from the Authority's central office indicated that Finance Department employees match fuel invoices for subsidiaries to any backup documentation provided by the fuel supplier. However, the employees assume subsidiary staff already have compared invoices to the on-site fuel consumption logs; central office does not periodically test that subsidiaries actually do so. When discussing our findings, central office officials did not know that all of the subsidiaries were not doing the reconciliations. Unless such reconciliations occur, the Authority lacks adequate assurance that it does not pay for more fuel than was actually used by its subsidiaries.

Fuel Rates

The Authority's Procurement Guidelines emphasize securing the best goods at the lowest available price, consistent with quality requirements and delivery needs. While we found the Authority had paid a reasonable amount for fuel for six of its subsidiaries, this did not always appear to be the case for LATS and WYTS.

During our audit period, the Authority had two separate fuel agreements with suppliers for LATS: one with the local county and another with a private company. We sampled invoices from the private company for seven entire months in our audit period. We found that, based on the amount of fuel LATS received from the vendor and the rates charged, the Authority could have saved approximately \$10,385 by using the New York State Office of General Services (OGS) contract vendor instead.

When we attempted to do a similar analysis of rates paid for WYTS's fuel, officials told us the Authority did not have any formal agreements with WYTS's fuel supplier (Wyoming County) during our audit period. Therefore, we could not determine whether the Authority paid the proper amount when buying fuel for WYTS. However, based upon our review of four months of invoices, we determined approximately \$560 could have been saved if the Authority purchased WYTS's fuel from the OGS vendor.

When discussing our findings, officials were unsure why there was no formal agreement with WYTS's fuel supplier. Furthermore, they explained that it was more efficient for LATS buses to fuel at the private vendor's location due to the large geographic area LATS bus routes cover. However, management did not maintain evidence that the Authority explored options other than the private company for obtaining fuel. By not exploring all available options, the Authority may not be obtaining the best available rate for fuel.

Recommendations

1. Ensure subsidiaries accurately log daily fuel consumption for each bus. Periodically verify that subsidiaries reconcile the logs to the corresponding fuel supplier invoices.
2. Work with the supplier to ensure the fuel pump gauge used by STS functions properly.
3. Re-evaluate the fuel agreement for LATS with the private vendor to determine if a more competitive rate is available.
4. Establish a contract between the Authority and Wyoming County for WYTS fuel procurement aimed toward obtaining fuel at the lowest available price.

Audit Scope, Objectives, and Methodology

We audited the Authority to determine whether it is purchasing the correct type of fuel, paying the proper amount for the fuel purchased, receiving the correct amount of fuel, and keeping accurate records of the supply and distribution of fuel. The audit covers the period April 1, 2012 through March 31, 2014.

To accomplish our audit objectives, we assessed the Authority's internal controls through inquiry, analytical procedures, observations, and reviews of fuel inventory records and delivery and disbursement reports. In this process, we tested selected transactions to determine whether controls were functioning as intended. In addition, we interviewed Authority management and staff, and reviewed applicable guidelines. We also reviewed Board and Committee meeting minutes.

We reviewed a sample of 101 fuel purchases totaling approximately \$564,000 for the eight subsidiaries. We selected every purchase for the two months of February and March 2014 and a random sample of purchases from April 2012 through January 2014. For the samples, we assessed whether the Authority paid a reasonable amount for the fuel based on contracted rates. We also compared the rates paid by the Authority to the OGS fuel contract rates. In addition, we tested the reliability of the Authority's fuel tracking system by comparing system reports to source delivery documents.

We conducted our audit in accordance with 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.

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. 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 purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Reporting Requirements

We provided a draft copy of this report to Authority officials for their review and comment. We considered the Authority's comments in preparing this report and have included them in their entirety at the end of it. Authority officials generally concurred with our report's recommendations and indicated that certain steps will be taken to address them.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Authority's Chairman 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 why.

Major contributors to this report were Brian Reilly, Mark Ren, Kathleen Hotaling, James Boudreau, and Robert Horn.

We thank the management and staff of the Authority for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

John F. Buyce
Audit Director, CPA, CIA, CFE, CGFM

cc: W. Carpenter, RGRTA Chief Executive Officer
S. Adair, RGRTA Chief Financial Officer
NYS Division of the Budget

Agency Comments



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December 23, 2014

Mr. John F. Buyce
Office of the State Comptroller
Division of Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

Re: Audit Report 2014-S-20

Dear Mr. Buyce:

Thank you for providing the Report 2014-S-20 on Fuel Purchases of the component units of the Rochester Genesee Regional Transportation Authority (the Authority). The Authority is pleased that the audit findings were inconsequential relative to the totality of fuel purchases made.

The recommendations included in your report and the Authority's responses are noted below:

1. *Ensure subsidiaries accurately log daily fuel consumption for each bus. Periodically verify that subsidiaries reconcile the logs to the corresponding fuel supplier invoices.*

This finding relates to 3 of the 8 regional subsidiaries audited, RTS Seneca (STS), RTS Wayne (WATS), and RTS Wyoming (WYTS), which represent less than 10% of the Authority's total fuel purchases. Accordingly, the Authority will further review the practices of the regional subsidiaries noted in the finding and determine the cost/benefit of implementing the additional control.

2. *Work with the supplier to ensure the fuel pump used by STS functions properly.*

RTS Seneca (STS) will inquire of its fuel supplier to determine what action, the supplier plans to take with regard to the faulty gauge.

3. *Re-evaluate the fuel agreement for LATS with the private vendor to determine if a more competitive rate is available.*

As a result of the expansive geographic service area covered by RTS Livingston (LATS), the Authority has determined, based on the reduction of vehicle miles and associated costs, that it is beneficial to operate its fleet from two locations. These considerations were factored into the decision to contract with a private vendor for fuel with a slightly higher cost. The Authority is committed to controlling operating costs at all subsidiaries and will continue to monitor the contracts for fuel. At the time that an opportunity to reduce fuel costs in conjunction with the existing operational efficiencies presents itself, we will take the necessary steps to act on that opportunity.

4. *Establish a contract between the Authority and Wyoming County for WYTS fuel procurement aimed toward obtaining fuel at the lowest available price.*

The establishment of a contract between RTS Wyoming and Wyoming County is being discussed along with other on-going negotiations.

The Authority notes the efforts of the individual contributors to this report from the State Comptroller's Office. The Authority, as always, will continue to be a responsible financial steward and drive forward to achieve the vision of becoming The Preferred Transportation Choice.

Sincerely,



Scott M. Adair, CPA
Chief Financial Officer

Cc:

Jim Redmond, Board Chairman
Mike Jankowski, Audit Committee Chairman
Bill Carpenter, Chief Executive Officer