H. CARL MCCALL
STATE COMPTROLLER

A.E. SMITH STATE OFFICE BUILDING
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

**TO THE SUPERVISOR AND MEMBERS
OF THE TOWN BOARD
OF THE TOWN OF EVANS,
ERIE COUNTY, NEW YORK:**

Among my top priorities as the State Comptroller is to maintain a strong partnership between my office and the local governments of New York State. One of the main objectives of this partnership is to assist local governments in improving their financial condition and strengthening their financial management systems.

The audit reports issued by my office are an important component in accomplishing this objective. These reports are expected to be a resource to you. They are designed to identify current and emerging fiscal problems and provide recommendations for improvement.

Prudent fiscal management, sound fiscal policy and a commitment to working together will enable us to serve the taxpayers more effectively by making better use of our limited resources. Toward this end, I look forward to working with your municipality and all other local governments throughout the State.

To make our audit report more useful and understandable, it now includes:

- Table of contents;
- Executive summary to highlight recommendations; and
- Headings that separate Findings and Recommendations.

If my office can be of assistance to you or if you have any questions concerning this audit report, please feel free to contact the local area office for your county listed at the back of this report.

Sincerely,

Carl McCall

H. Carl McCall

TABLE OF CONTENTS

Section	Page
Executive Summary	3
Summary of Recommendations	3
Authority and Scope Letter	5
Findings and Recommendations	
Financial Condition	
Unappropriated Fund Balances	7
Procurement Policies and Procedures	9
Solid Waste Disposal - Bid Award	10
Controls Over Fuel	11
Appendix	13

EXECUTIVE SUMMARY

Our examination disclosed findings which should be reviewed by the Town Board for appropriate action. Good management practices require that town officials take prompt action concerning our recommendations. We believe prompt action by town officials will help improve the town's financial operations, protect the town's resources from possible loss or improper use, and ensure its compliance with appropriate statutory requirements. For the ready reference of the reader, the recommendations are summarized in the following section. However, this is not meant to serve as a substitute for reviewing the Findings and Recommendations section of the report, which begins on page 7. Please note that of the four findings in this report, two findings are similar to those contained in our prior Report of Examination issued March 4, 1994.

The Town Board should prepare a plan of action that addresses our recommendations and forward the plan to our office within ninety days. For guidance in preparing the plan of action, you may refer to applicable sections contained in the publication issued by the Office of the State Comptroller entitled *Financial Management Guide for Local Governments.*

We are available to assist you in providing guidance in preparing the plan. The local area office for your county is listed in the back of this report.

SUMMARY OF RECOMMENDATIONS

• Financial Condition •

The following recommendation relates to the town's financial condition. Failure to properly implement the recommendation could unnecessarily burden current taxpayers who may provide funding in excess of amounts needed to provide current services and fund authorized reserves.

Unappropriated Fund Balances *(For Full Discussion See Commentary, Page 7)*

The Town Board should carefully review the financial history of all town funds and take into consideration the fund balances available for appropriation when developing budgets, so that unappropriated fund balances can be kept at moderate levels, and real property taxes levied and user charges established, only to the extent necessary to fund current year operations.

• Internal Control and Compliance •

An effective system of internal control is necessary so that the Town Board can have reasonable assurance that resources are safeguarded and that transactions are executed in accordance with management's authorization, are in accordance with statutory requirements and are properly recorded.

Failure to establish proper controls could expose the town's resources to loss or improper use. The following recommendations help ensure that the town's resources are not at risk and that transactions are properly authorized and are in compliance with statutory requirements.

Procurement Policies and Procedures *(For Full Discussion See Commentary, Page 9)*

The Town Board should develop and implement comprehensive procurement policies and procedures to help ensure the prudent and economical use of public moneys and facilitate the acquisition of goods and services of the desired quality at the lowest cost. Further, the board should take care to approve for payment, only those vouchers accompanied by required documentation.

Solid Waste Disposal - Bid Award *(For Full Discussion See Commentary, Page 10)*

The Town Board should review its purchasing policies and procedures for awarding bids, and take more care to sufficiently document and support all decisions made, to demonstrate their belief that actions taken will further the best interest of the town, and comply with statutory bidding requirements.

Controls over Fuel *(For Full Discussion See Commentary, Page 11)*

The Town Board should review current controls over the storage and use of vehicle fuel, and establish sufficient inventory and record keeping procedures. Necessary and appropriate staff should be designated by the board to maintain and review required records, to better ensure that any loss of fuel through leakage or theft, would be detected and addressed on a timely basis.

H. CARL MCCALL
STATE COMPTROLLER

A.E. SMITH STATE OFFICE BUILDING
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

Report: **97M-208**
Period: **January 1, 1995 - December 31, 1995**
Filed: **September 5, 1997**

AUTHORITY AND SCOPE LETTER

**TO THE SUPERVISOR AND MEMBERS
OF THE TOWN BOARD
OF THE TOWN OF EVANS,
ERIE COUNTY, NEW YORK:**

Pursuant to the State Constitution, Article V, §1 and further authority vested in the State Comptroller by Article 3 of the General Municipal Law, we have examined the financial affairs of the Town of Evans for the fiscal year ended December 31, 1995.

Our responsibilities are to review the financial condition and fiscal operations of the town in order to identify areas needing improvement and to inform local officials and the public of our findings and recommendations. Consistent with these responsibilities, the objectives of this examination were to identify conditions indicating possible fiscal stress and to test for noncompliance with certain finance related statutory and regulatory provisions as well as guidance of the Office of the State Comptroller. It was not our objective to, and we do not, express an Audit Opinion on the financial statements of the town or provide assurance as to either its internal control structure or the extent of its compliance with statutory and regulatory requirements as well as guidance of the Office of the State Comptroller.

The management of the town is responsible for its financial affairs and for safeguarding its resources. This responsibility includes establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that resources are safeguarded against loss from unauthorized use or disposition; that transactions are executed in accordance with management's authorization and are properly recorded; that appropriate financial reports are prepared; that applicable laws, rules and regulations are observed; and that appropriate corrective action is taken in response to audit findings. Nevertheless, errors, irregularities, or instances of noncompliance may occur and not be detected because of inherent limitations in any internal control structure. The town engaged an independent public accountant who issued report(s) dated February 29, 1996 on the town's general purpose financial statements for the year ended December 31, 1995, its internal control structure and its compliance with certain laws, rules and regulations.

In determining the scope of our examination, we considered the town's financial condition, its internal controls, applicable statutory provisions, guidance of the Office of the State Comptroller and other relevant information. We obtained an overview of the fiscal operations of the town through inquiry, analytical procedures, observations and the inspection of records and reports. As a result of this planning process, we limited our examination to the following areas:

Financial Condition
Cash Management/Receipts and Disbursements
Cash Management/Deposits and Investments
Purchasing
Claims Processing
Payroll
Retirement Reporting
Fixed Assets

We conducted our examination in accordance with Generally Accepted Government Auditing Standards (Government Auditing Standards, issued by the Comptroller General of the United States). For the areas selected, we gained an understanding of the town's internal control structure. Based upon this understanding, we assessed risks and designed and performed such tests which we considered necessary to satisfy our audit objectives. We believe that our examination provides a reasonable basis for our report.

The results of our examination procedures disclosed certain findings and recommendations which are presented in this Report of Examination. These findings and recommendations have been discussed with local officials and their comments have been considered in preparing this report.

The Town Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Town Board should prepare a plan of action that addresses the recommendations in this report. We encourage the Town Board to prepare a corrective action plan which would be available for public review in the town clerk's office and the Office of the State Comptroller.

Very truly yours,

Office of the State Comptroller

OFFICE OF THE STATE COMPTROLLER
DIVISION OF MUNICIPAL AFFAIRS

Albany, New York
February 14, 1997

FINDINGS AND RECOMMENDATIONS

• Financial Condition •

Unappropriated Fund Balances

Finding

Our review of the town's financial condition indicated that the unreserved, unappropriated fund balances of the refuse and water district funds at the end of 1995 were in excess of what we believe to be necessary for current district needs.

♦ **Refuse District**

The refuse district fund's unappropriated fund balance at December 31, 1995 was $337,569 which is approximately 39% of 1996 budgetary appropriations. It was also noted that 1995 expenditures were only 83% of appropriations, and actual revenues exceeded 1995 budget estimates by 8%. The town has executed long-term renewable contracts which set the rates for the collection and disposal of solid waste and recyclables; thus, it would seem reasonable to expect that expenditures be more accurately estimated.

We noted that when the 1996 budget was originally adopted, the unappropriated fund balance of the refuse district was 73% of 1996 budgeted appropriations. On December 20, 1995, the board passed a resolution amending the 1996 budget, appropriating $291,700 of unreserved fund balance, resulting in a fund balance of 39% of 1996 budgetary appropriations and a decrease in the per unit charge for refuse and garbage from $140 to $90 While this represents an effort by the board to reduce fund balance, we noted that the board raised the refuse rate to $120 in the 1997 adopted budget; this could result in an increase in unreserved, unappropriated fund balance of the district. In addition, we concur with the criticism made by the independent public accountant, engaged by the town, regarding the timing of the 1996 budget amendment, as the excessive fund balance problem should have been identified and addressed at the time the budget was adopted. We also note that the December 31, 1996 unappropriated fund balance of the refuse district fund, as represented by the town accountant, amounted to 34% of budgetary appropriations.

♦ **Water District**

The town's combined Water District Fund had an unappropriated fund balance of $661,730 at December 31, 1995; this is approximately 40% of 1996 budgetary appropriations. We note that no appropriation of fund balance was included in the 1996 or 1997 adopted budgets for the water districts.

Water district fund revenues and expenditures are accounted for in a combined operating fund throughout the year, and allocated among the various districts at year end based on the percentage of total user charges billed for each of the districts. Budgeted appropriations for water district operations, aside from debt service, are not allocated among the districts. An analysis of the 1995 year-end district fund balances, as presented in the annual report, compared to the town accountant's breakdown of 1996 appropriations based on 1995 revenue percentages, revealed that all but one of the twelve water districts had unreserved, unappropriated fund balances which exceeded 25% of their respective 1996 appropriations.

We further noted, during our review of the 1996 and 1997 adopted water district budgets, that an item entitled "provision for fund balance" was included in the budgets for three of the districts. These "provisions" were effectively financed through the levy of real property taxes. This practice further increases the already excessive fund balances in these districts.

In addition, during our review of the minutes of Town Board meetings, it was noted that on October 2, 1996, the board authorized an increase in water rates to cover corresponding water rate increases by the Erie County Water Authority, from whom the town purchases the majority of its water supply. It appears that sufficient fund balance was already available to cover at least a portion, if not all, of this cost increase in the short term. Finally, we note that the unreserved, unappropriated fund balance amount provided by the town accountant for the combined water district fund at December 31, 1996 amounted to 33% of 1997 budgetary appropriations.

While we recognize that certain revenues and expenditures are difficult to predict and that fund balance provides a cushion against unexpected occurrences, fund balances represent accumulated resources which have not been used, to date, to provide services. Accordingly, the accumulation of excessive fund balances creates an inequity between current and future residents, as the town is not providing a service to current taxpayers in exchange for the taxes and user fees collected from them. Prudent fiscal management requires that only those amounts necessary to meet the current fiscal needs of the operating funds be raised by taxation or imposed as user fees.

Recommendation

The Town Board should carefully review the financial history of all town funds and take into consideration the fund balances available for appropriation when developing budgets, so that unappropriated fund balances can be kept at moderate levels, and real property taxes levied and user charges established, only to the extent necessary to fund current year operations.

Procurement Policies and Procedures

Finding

There was no indication that the Town Board had adopted procurement policies and procedures which fully comply with statutory requirements.

Effective January 1, 1992, General Municipal Law, §104-b requires the governing board of every political subdivision to adopt policies and procedures governing all procurements not required by law to be made pursuant to competitive bidding requirements. The purpose of this legislation is to help ensure the prudent and economical use of public moneys and to facilitate the acquisition of goods and services of desired quality at the lowest cost.

The Town Board adopted a resolution at its January 1995 organizational meeting which required that written proposals be obtained for purchases or service contracts over $1,000, and that such proposals be attached by the department head to the purchase order submitted for approval. This resolution was the only record presented to us that indicated that the town attempted to comply with General Municipal Law, §104-b. However, the resolution does not fully address the following statutory requirements :

- Procedures for determining whether a procurement is subject to competitive bidding and, if it is not, documenting the basis for such determination.
- Procedures requiring adequate documentation of actions taken and proposals obtained.
- Procedures requiring that if a contract is awarded to other than the lowest dollar offerer, there is justification and documentation of the reasons such award furthers the purposes of Section 104-b.
- Procedures setting forth any circumstances when, or types of procurement for which, in the sole discretion of the Town Board, the solicitation of proposals or quotations will not be in the best interest of the town.

A similar finding was included in our prior Report of Examination.

In addition, during our testing of claims processing and procurement, we noted that of twenty-nine purchases or service contracts tested, which exceeded $1,000, twenty-four lacked documentation of written proposals and the method or reason for vendor selection, as required by the above mentioned board resolution. Failure to comply with adopted procurement procedures decreases controls over purchasing, as well as decreasing the chance of acquiring the best quality of goods or services at the best available prices.

Recommendation

The Town Board should develop and implement comprehensive procurement policies and procedures to help ensure the prudent and economical use of public moneys and facilitate the acquisition of goods and services of the desired quality at the lowest cost. Further, the board should take care to approve for payment, only those vouchers accompanied by required documentation. For further guidance in this area, town officials should refer to a publication issued by the Office of the State Comptroller entitled *Developing Procurement Policies and Procedures* as well as Section 8.3 of the *Financial Management Guide for Local Governments*.

Solid Waste Disposal - Bid Award

Finding

Sufficient documentation was not available to justify the Town Board's award of a solid waste disposal contract to other than the low bidder.

A vendor had a five year contract for collecting and hauling (as opposed to disposal) the town's solid waste from 1992 through 1996. Waste was hauled by such vendor and disposed of at the Chautauqua County Landfill. In November 1994, the town advertised for sealed bids for the disposal of solid waste for a two year renewable term, beginning January 1, 1995. The town received a bid of $45 per ton from the Chautauqua County Landfill which had been receiving waste from the town during 1994 as well as several years prior. The vendor who had the collecting and hauling contract bid $48.95 per ton for disposal. The contract was awarded to the higher bidder, and there was no explanation in the minutes why the low bid was rejected.

The rate paid by the town to the vendor for collecting and hauling solid waste remained unchanged from 1994 through 1996. Nothing in the bid proposals indicated that either vendor fixed the price beyond the initial two year term. Therefore, it is unclear what advantage the town received, if any, in awarding the contract to the high bidder at an additional $3.95 per ton. This bid award resulted in $16,637 in additional expense to the refuse district for the ten months for which the $48.95 per ton rate was charged, rather than the $45 per ton rate of the low bidder. The rate was reduced to $45.95 per ton for the fourteen month balance of the initial contract period, which resulted in additional cost of $5,063 to the district, since the cost per ton was $.95 greater than the low bidder's rate.

A town councilman, who was a board member at the time of this bid award, said he believed that this award was related to the town's decision to add large appliance-type items to the garbage pickup contract, during the same time period. He later presented bid specifications for the disposal contract which included "white goods" in the list of solid wastes to be disposed of. He also presented a letter to us, which apparently accompanied the low bid, and indicated that white goods, as mentioned in the bid specifications, could not be accepted at their landfill. However, there was no formal documentation or indication in the minutes that this was indeed the Town Board's rationale for awarding the contract to the high bidder. In addition, in light of the extra cost incurred, we believe that some analysis should have been conducted to determine whether a more cost effective method of providing periodic collection of "white goods" could be identified.

We noted several other instances during 1995, where contracts were awarded to other than the low bidder, with no documented justification of the reason for vendor selection. The dollar amounts of potential cost savings, however, were not as significant as in the situation described above. In all bidding situations, the Town Board should clearly indicate the method and reason for their selected course of action, and illustrate that such actions facilitate the acquisition of desired goods and services in compliance with statutory bidding requirements.

Recommendation

The Town Board should review its purchasing policies and procedures for awarding bids, and take more care to sufficiently document and support all decisions made, to demonstrate their belief that actions taken will further the best interest of the town, and comply with statutory bidding requirements.

Controls Over Fuel

Finding

We noted weaknesses in the town's internal controls relating to unleaded gasoline and diesel fuel stored at the town highway garage.

The town maintains storage tanks at the town highway garage for unleaded gasoline and diesel fuel for use in town vehicles. During the period from January 1, 1995 through December 31, 1995, the town expended in excess of $35,000 and $11,000 for unleaded gasoline and diesel fuel, respectively, stored at this site. Our review of procedures for controlling the purchase and use of fuel disclosed that the town did not maintain perpetual inventory records for reconciliation to actual readings of fuel inventories.

- The highway department maintains a record of diesel fuel usage, on which daily dipstick readings and deliveries are posted. For most days, a closing reading is taken and the amount used from the tank during that day is calculated, for comparison to daily metered usage indicated by the computerized gas pump system. However, there is no evidence that there is any follow-up for significant discrepancies. Further, there is no indication that a perpetual inventory record is

maintained comparing the calculated number of gallons that should be on hand to the amount actually in the tank per the physical inventories. Rather, only a comparison of daily consumption is performed, and only for days on which closing readings were taken. No closing readings are available for analysis of weekends and holidays, while there is indication, per the computerized sales reports, that gas is pumped on many of those days. We noted that the town does have the ability to access the amount of gallons on hand from the gas pump computer; this amount could be compared to a physical reading at any given point in time. Such comparison or reconciliations, however, have not been performed.

- We were advised that the police department is currently responsible for purchasing unleaded fuel for the second tank and maintaining related inventory records. The police department has a form in place, similar to that used by the highway department, which is designed to compare only daily metered usage to daily actual usage from the tank, based on beginning and ending physical inventories. However, at no time during 1996 was sufficient data accumulated and recorded on this form to permit such a comparison .

Several town employees indicated that there is some lack of agreement as to which town departments or employees should be officially responsible for maintaining and monitoring such fuel inventory records; this may have contributed to the incomplete records noted above. The Town Board's failure to clearly designate appropriate staff to perform such inventory and record-keeping functions decreases the controls over the use of fuel and increases the possibility that loss or leakage of fuel from the storage tanks will go undetected.

In addition, there was no record to indicate that department heads periodically review, for reasonableness, the available computerized reports of fuel usage by department, vehicle, and employee. Action taken to follow up on any significant discrepancies should also be documented.

With respect to the lack of reconciliation of perpetual inventory records to physical inventories of fuel, a similar finding was included in our prior Reports of Examination.

Recommendation

The Town Board should review current controls over the storage and use of vehicle fuel, and establish sufficient inventory and record keeping procedures. Necessary and appropriate staff should be designated by the board to maintain and review required records, to better ensure that any loss of fuel through leakage or theft, would be detected and addressed on a timely basis.

APPENDIX

OFFICE OF THE STATE COMPTROLLER
DIVISION OF MUNICIPAL AFFAIRS

Patricia Lamb McCarthy, Deputy Comptroller
Richard L. Luke, Assistant Deputy Comptroller
Jeffrey P. Swain, Assistant Deputy Comptroller

LOCAL AREA OFFICE LISTING

BUFFALO AREA OFFICE
David H. Slusarz, Chief Examiner
Office of the State Comptroller
1050 Ellicott Square Building
295 Main Street
Buffalo, New York 14203
(716) 847-3647 Fax (716) 847-3643
Allegany, Cattaraugus, Chautauqua, Erie, Genesee, Niagara, Orleans, Wyoming

SYRACUSE AREA OFFICE
Norman E. Bagley, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202
(315) 428-4192 Fax (315) 426-2119
Herkimer, Jefferson, Lewis, Madison, Oneida, Onondaga, Oswego, St. Lawrence

GLENS FALLS AREA OFFICE
Richard H. Dinolfo, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801
(518) 793-0057 Fax (518) 793-5797
Clinton, Essex, Franklin, Fulton, Hamilton, Montgomery, Rensselaer, Warren, Washington

HAUPPAUGE AREA OFFICE
Gregory J. D'Alessandro, Chief Examiner
Office of the State Comptroller
NYS Office Bldg. Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533
(516) 952-6534 Fax (516) 952-6530
Nassau, Rockland, Suffolk, Westchester

ROCHESTER AREA OFFICE
Gregory L. Smith, Chief Examiner
Office of the State Comptroller
125 St. Paul Street, Suite 105
Rochester, New York 14604
(716) 454-2460 Fax (716) 454-3545
Cayuga, Chemung, Livingston, Monroe, Ontario, Schuyler, Seneca, Steuben, Wayne, Yates

BINGHAMTON AREA OFFICE
Kirk A. Schanzenbach, Chief Examiner
Office of the State Comptroller
State Office Bldg. Room 1701
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Broome, Chenango, Cortland, Delaware, Otsego, Sullivan, Tioga, Tompkins

ALBANY AREA OFFICE
Thomas J. Kelly, Jr., Chief Examiner
Office of the State Comptroller
22 Computer Drive West
Albany, New York 12205
(518) 438-0093 Fax (518) 438-0367
Albany, Columbia, Dutchess, Greene, Orange, Putnam, Saratoga, Schenectady, Schoharie, Ulster