

**Nassau County
Office of the Comptroller
Field Audit Bureau**



**Limited Financial Review
of the Hicksville Water District**

HOWARD S. WEITZMAN

Comptroller

September 18, 2007

NASSAU COUNTY
OFFICE OF THE COMPTROLLER

HOWARD S. WEITZMAN
Comptroller

Elizabeth Botwin
Chief Deputy Comptroller

Susan D. Wagner
*Deputy Comptroller
for Operations – Chief of Staff*

Aline Khatchadourian
*Deputy Comptroller
for Audits*

Moira A. La Barbera
Counsel to the Comptroller

Allen M. Morrison
*Director of
Communications*

Audit Staff

Bruce G. Kubart
Deputy Field Audit Director

Aurora Scifo
Senior Project Manager

Douglas Hutter
Field Audit Supervisor

Theresa Dankenbrink
Field Audit Supervisor

Tolulope Agosu
Field Auditor

EXECUTIVE SUMMARY

Background

Nassau County has over 200 special taxing districts providing services for town residents. More than half of the special districts are run by independently elected commissioners, the rest of the districts are run directly by town officials. In 2005, the office of Nassau County Comptroller Howard Weitzman conducted audits of sanitary special districts in Nassau County. A follow-up white paper discussed problems of waste, fraud and abuse in special districts generally.¹

Following the audits of sanitary districts, Comptroller Weitzman's office undertook audits of the financial operations of four water districts in Nassau County: the Hicksville Water District in the Towns of Oyster Bay and Hempstead, the Westbury Water District in the Town of North Hempstead, and the Franklin Square and East Meadow Water Districts in the Town of Hempstead.

Water districts are governments that exist solely to provide water for residents and commercial establishments primarily in unincorporated areas of towns. District expenses are paid through local property taxes and charges for water, generally based on the gallons used as measured by water meters.

In 2006 the Hicksville Water District (the "District") provided 2.46 billion gallons of water to a population of 47,810, operating 15 underground wells, two elevated water storage tanks and three ground level tanks at 10 plant sites throughout the District's 7.9 square mile service area.² Homeowners in the District during 2006 paid an average of \$147 in taxes to the District in addition to a water charge averaging \$.90 per thousand gallons. For a District homeowner who used 100,000 gallons per year, the average total charge for water was \$231.

The District's cost of operations was \$7,155,144 and \$7,038,763 for the years ended December 31, 2005 and 2004 respectively. During the audit period the District employed three elected commissioners, a superintendent, four administrative and 13 operations staff members. Administrative expenses including commissioner and administrative salaries and benefits, legal and professional expenses, and insurance totaled \$854,163 for 2005 and \$889,375 for 2004 or about 12% of total District expenses in each year. The District derives approximately 58% of its revenue from real property taxes, 40% from charges for water usage with miscellaneous revenues making up the remainder.

¹ *Nassau County Special Districts: The Case for Reform* (Dec. 19, 2005), www.co.nassau.ny.us/comptroller/auditreports.html

The individual sanitary district audits can be found at the same web site.

² Hicksville Water District "2005 Drinking Water Quality Report"

EXECUTIVE SUMMARY

Audit Scope and Methodology

The scope of our audit was limited to an examination of the District's administrative policies and procedures, procurement practices, operating expenses, administrative expenses, and revenues for the years ended December 31, 2004 and 2005.

Summary of Significant Audit Findings

Cash and Investments

As of December 31, 2005 the District had \$3.5 million in cash on hand. Internal controls over these large balances were inadequate. The District did not have a formal, supervised process for reconciling its bank accounts and did not safeguard its check stock.

Investment decisions were made by the account clerk without any analysis of competitive rates or the prior approval by the Board.

Purchasing Contracts

The District did not comply with its written procurement policy. We tested 18 of 41 purchases between \$3,500 and \$10,000, which represented \$85,490 of the \$180,588 in total goods purchased during the audit period. We found no evidence of verbal or written quotations for six of the purchases.

Procurement of Professional Services - Lack of Competitive Procurement

The District has used the same engineering firm for over 35 years without engaging in a competitive procurement process to evaluate whether other firms would provide better or more cost effective services.

While the District is not required to select the service provider who offers the lowest price, prudent stewardship of taxpayer funds requires that the District make an effort to reduce the cost of services by engaging in a competitive process. Open procurement of services also guards against favoritism, fraud and corruption in the selection of professional advisors.

Over Reliance on Engineering Firm – Possible Conflict of Interest

The District contracts with one engineering firm to advise it on repair, upkeep and construction of District facilities. The engineering firm proposes a construction or repair project and, once approved by the Board, also prepares the bid specification documents, performs the engineering work related to the project and monitors the work of a third party on the repair or construction project. The nature of the services provided by the engineering firm creates an apparent conflict of interest since the engineering firm has a

EXECUTIVE SUMMARY

substantial economic interest in the advice it gives the District concerning construction or repair projects.

The engineering firm was paid \$1,038,557 during the audit period for services related to capital projects and has made recommendations for nine improvement projects over the next 15 years at an estimated cost of \$14.4 million.

Adjustments to Revenues

The District's billings are based on the metered consumption of water. However, numerous adjustments must be made because of initial billings that are based on estimated usage, the electronic billing system picking up an incorrect reading, late charge reversals, or for payments credited to an incorrect account.

Controls over the adjustment process were inadequate. Different employees had billing system access to make adjustments but the system did not maintain a history of who entered each adjustment. We also found no evidence that the adjustment report was reviewed or approved by a supervisor.

Shopping Club Memberships

The District provided Costco memberships to the commissioners and the Superintendent, along with free memberships for their spouses. The District did not have a policy that allows such memberships and there was no evidence of a clear business purpose for them.

Commissioner Compensation

During the audit period the combined per diem compensation for the three commissioners was \$28,160 in 2004 and \$26,960 in 2005, reflecting a payment of \$80 per day, the maximum amount then authorized by New York State law. As part of their compensation, the commissioners were also offered fully paid medical, dental and vision insurance for a total cost of \$59,401 over the audit period.

The Board had not set forth a policy requiring board members to attest to time they work or to provide written descriptions of the District business performed on the days when there were no board meetings. Time records consisted only of the dates the commissioners worked, without any notations of the hours worked, meetings attended or District business performed. Commissioners were paid a total of \$7,280 during the audit period for days when there were no board or professional organization meetings with no record of what work was performed.

The District reported to the New York State Employees Retirement System ("NYSERS"), for retirement credit purposes, that one commissioner worked 122 days in 2004 and 116 days in 2005. (The other two commissioners were already State retirees). We could not ensure that the District was correctly reporting time worked to NYSERS

EXECUTIVE SUMMARY

because the District did not establish a standardized workday for commissioners by Board resolution, or maintain a record of how many hours the commissioner worked.

Commissioners' and Superintendent's Travel, Meeting and Conference Expenses

The three commissioners attended the annual American Water Works Conference held in Orlando, Florida in 2004 and San Francisco, California in 2005 at a cost to the District of \$8,778 in 2004 and \$10,412 in 2005, for registration fees, travel, lodging and meal expenses. We question the business need for all three commissioners to attend the conference each year. Commissioners were reimbursed for meals, sometimes at rates that were almost double the rate permitted by the federal government to those cities.

The number of civic and professional organization meetings attended by the Superintendent and the commissioners appeared excessive. The District reimbursed the Superintendent \$2,037 for registration fees to attend 64 Rotary Club meetings. The commissioners were reimbursed \$4,155 to attend 57 professional organization meetings.

The commissioners also submitted expense reports without receipts and claimed reimbursement for expenses that should have been a personal expense of the commissioners such as hotel expense after a conference ended.

Payroll and Time and Leave

The District did not maintain adequate time records for a part-time employee to support wages of \$27,337 during the audit period. The District did not require that the employee attest to the time worked or that a supervisor certify its accuracy.

While the District's contract with the union requires employees to complete a Request for Leave form for approval of vacation, personal or sick leave, this requirement was not enforced. In addition, the District did not have a policy for approval of non-union employees' requests for leave.

The controls over the authorizations and reporting of overtime were inadequate. Advance written authorization, although required for overtime approval, was not secured. We were advised that the foreman verbally informed the Superintendent of the need for overtime for non-administrative employees ("field workers") and the overtime hours reported on their time sheets did not contain any written approvals. Field workers earned approximately \$134,500 in overtime in 2004 and \$154,700 in 2005 and may have been paid for overtime that was unnecessary or unauthorized.

In addition to his annual salary, the Superintendent was paid \$3,800 in 2004 and \$1,800 in 2005 for attendance at Board meetings. We believe this is inappropriate since one of the Superintendent's basic responsibilities is to keep the Board informed of the District's financial condition and operational issues.

EXECUTIVE SUMMARY

While the District uses an outside service bureau to prepare its payroll, we found an inadequate segregation of payroll function duties. The District's payroll clerk manually completes a preprinted worksheet to provide the service bureau with current pay period data, reviews service bureau payroll reports for accuracy, and works without supervisory review.

Fixed Assets

We found that the District did not capitalize 26 motor vehicles nor did it establish control by including them in its fixed asset inventory and, as a result, their financial statements were not in compliance with Government Accounting Standards Board Statement 34 "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*".

Overpayment

The District's cash disbursement procedure did not require that all invoices be compared to vendor history records to detect if they already paid for goods or services. The account clerk advised that a vendor's file is usually reviewed when verifying invoices; however, the nature of the review and what is verified is not evidenced on the voucher.

We found that the District was not aware of a duplicate billing error on one of the 35 invoices submitted by its attorney. Both invoices, for \$1,200 and \$1,050, were for the same work on the 2004 annual election and were paid by the District. Had the District checked for duplicate payments and compared the second bill to the one previously paid, it could have prevented the overpayment.

The matters covered in this report have been discussed with officials of the District during this audit. On June 7, 2007 we submitted a draft report to the District with a request for comments. The District's comments, received on August 24, 2007 are included as an addendum to this report (Appendix).

TABLE OF CONTENTS

<u>Audit Finding and Recommendations</u>	<u>Page Number</u>
Cash and Investments	1
Purchasing Contracts	2
Procurement of Professional Services – Lack of Competitive Procurement.....	3
Over Reliance on Engineering Firm – Possible Conflict of Interest	4
Adjustments to Revenues.....	5
Shopping Club Memberships.....	6
Commissioner Compensation	6
Commissioner’s Travel, Meeting and Conference Expenses	9
Payroll and Time and Leave	11
Fixed Assets	13
Overpayment.....	13
Appendix – Hicksville Water District’s Response and Auditor’s Follow-up.....	15

AUDIT FINDINGS AND RECOMMENDATIONS

Audit Finding (1):

Cash and Investments

As of December 31, 2005, the District had \$3.5 million in cash on hand comprised of demand deposits and short term investments. \$2.3 million of this amount was reserved for repairs and capital projects, while the remaining \$1.2 million was in the general fund. We found that internal controls over these large balances were inadequate because the District did not have a formal bank reconciliation process to ensure that bank account balances were properly monitored and cash transactions were properly authorized and reflected in the financial statements. We found that:

- there were no written procedures on how the bank reconciliation should be prepared or reviewed;
- the reconciliations were not prepared using a standard acceptable format and were extremely difficult to understand;
- the endorsements on paid checks could not be reviewed because the District does not obtain images of the back of cancelled checks; and
- reconciliations were not signed and dated by the preparer and there was no evidence of review and approval by the chief fiscal officer.

Without an effective bank reconciliation process, unauthorized or erroneous transactions may not be detected.

The District has a comprehensive policy as to the type of securities that can be purchased and the designation of depositories. It does not, however, have a policy that requires a competitive review of investment rates. The administration of the District's investment policy is delegated to the chief fiscal officer, who is authorized to contract for the purchase of investments. However, we found that investment decisions to roll over certificates of deposit were made by the account clerk without the prior involvement of the chief fiscal officer, and without doing any analysis of competitive rates. This increases the risk that the funds may not be invested for the proper term or at the most beneficial interest rate.

We also found that the District failed to:

- safeguard its unused check stock;
- store unused checks in a locked cabinet, making them susceptible to theft;
- maintain an inventory of unused checks, therefore theft may not be detected timely; and
- destroy check stock from closed accounts to ensure that it is not inadvertently used or intentionally misused.

AUDIT FINDINGS AND RECOMMENDATIONS

Audit Recommendations:

The District should:

- a. promulgate and implement written procedures covering the reconciliation process;
- b. prepare bank reconciliations using a standardized format, such as the one typically preprinted on the bank statements;
- c. obtain and review images of the cancelled checks to ensure that they were endorsed by the payee;
- d. ensure that bank reconciliations are signed and dated by the preparer and the chief fiscal officer;
- e. require the chief fiscal officer to pre-approve all investment decisions;
- f. keep check stock in a secure location and maintain a perpetual inventory record; and
- g. destroy check stock from closed accounts and keep a written record of the checks destroyed, the date destroyed and employees in attendance at the time.

Audit Finding (2):

Purchasing Contracts

New York State General Municipal Law (GML) §103 requires that same or similar commodities anticipated to cost at least \$10,000 per year be procured through competitive sealed bids. The District has adopted a procurement policy for goods and services that are not required to be covered by GML §103 as is required by GML §104. The District's policy requires competitive bidding for district purchases excluding service contracts, utilities and insurance, as follows:

- between \$3,500 and \$5,000 - three verbal quotations; and
- greater than \$5,000 but less than \$10,000 - three written quotes.

District's procurement policy dictates that purchases of goods and services that are not professional in nature are requested by the employees and then purchase orders are prepared and approved by the foreman for field items, the account clerk for office items or the Superintendent for equipment. The Board then approves the claim vouchers and the warrant, and signs the vendor checks.

We found that the District did not comply with its policy in that evidence of competitive bidding was lacking. We tested 18 of 41 invoices between \$3,500 and \$10,000, which represented \$85,490 out of the \$180,588 in purchases made during the audit period. The sample excluded those purchases that are not subject to bidding requirements under the District's procurement policy. We found no evidence of verbal or written quotations for

AUDIT FINDINGS AND RECOMMENDATIONS

6 of the 18 purchases tested. The District can not be assured that it has obtained goods of appropriate quality at the lowest possible price unless it adheres to its policy. The District has failed to correct this problem since 1996, when the New York State Comptroller examined the District and had this same finding.

Audit Recommendations:

The District should comply with its procurement policies by obtaining the required quotations, documenting all verbal quotations, and retaining copies of all written quotations, paid invoices and other supporting documentation for audit trail purposes. The Board should ensure that the appropriate evidence of competitive bidding accompanies all purchases prior to authorizing purchase orders.

Audit Finding (3):

Procurement of Professional Services – Lack of Competitive Procurement

Pursuant to the requirements of GML §104-b, the District has established a policy for the procurement of professional services which do not require competitive bidding under GML §103. The District's procurement policy does not require the solicitation of alternate proposals for professional services, including legal and engineering and is insufficient to assure the prudent and economical use of public monies. It states "the selection and hiring of an engineer, attorney, internal auditor, and computer programmers shall be based on the knowledge, skills and experience of the individual or firms selected."

We disagree with this policy because it fails to require that the District make any effort to solicit price quotes for professional services. While the District is not required to select the service provider who offers the lowest price, prudent stewardship of taxpayer funds requires that the District make an effort to reduce the cost of services by engaging in a competitive process. Open procurement of services also guards against favoritism, fraud and corruption in the selection of professional advisors.

The District has used the same engineering firm for over 35 years without engaging in a competitive procurement process, such as issuing requests for proposals, to evaluate whether other firms would provide better or more cost effective services. Because the District has not given other professional firms the opportunity to compete for its business, the District cannot know whether it is obtaining the best possible price or the highest possible quality of work from its engineering firm.

It should also be noted that the New York State Comptroller's 1996 Report of Examination also found that the District did not issue requests for proposals before awarding an engineering contract. In the past ten years the District has not complied with

AUDIT FINDINGS AND RECOMMENDATIONS

the State Comptroller's recommendation that it use a competitive bidding process for engineering services.

Audit Recommendations:

The District should:

- a) amend its procurement policy to ensure that a competitive procurement for services is required consistent with the intent of GML§104-b, including the specific procedures to be followed; and
- b) engage in a competitive procurement process to evaluate whether other engineering firms would provide better or more cost effective services.

Audit Finding (4):

Over Reliance on Engineering Firm – Possible Conflict of Interest

The District contracts with one engineering firm to advise it on repair, upkeep and construction of District facilities. The close ties between the District and the engineering firm give rise to an apparent conflict of interest, since the engineering firm has a substantial economic interest in the advice it gives the District concerning construction or repair projects.

- The engineering firm not only proposes the repair and construction projects to the Board, but once the Board decides on a project, the engineering firm also prepares the bid specification documents, performs the engineering work related to the project and monitors the work of a third party on the repair or construction project. The engineering firm was paid \$1,038,557 during the audit period for services related to capital projects.
- The engineering firm also drafted a plan for the District in 2005 that addressed existing and proposed water quality regulations and evaluated the demand for water. The plan provides recommendations for maintaining, upgrading and expanding the District's facilities over the next 15 years through nine improvement projects at a total cost of approximately \$14.4 million. This could present a conflict of interest if they are also receiving the engineering work associated with the projects they recommend.

Audit Recommendations:

The District needs to ensure that the engineering recommendations are prudent and necessary, and avoid contractual relationships that give rise to potential conflicts of interest and the appearance of impropriety.

AUDIT FINDINGS AND RECOMMENDATIONS

The District should:

- a) separate the function of engineering advisor and engineer performing the recommended work. The District, for example, might hire an engineering firm to serve exclusively as an advisor on the need for repair or construction work and separately procure an engineer to perform the work; and
- b) competitively procure engineering services consistent with the requirements of the General Municipal Law. The District should consider procuring engineering services for repair and construction on a project by project basis, rather than giving one firm an annual contract to do all engineering work in the District.

Audit Finding (5):

Adjustments to Revenues

The District's customer billings are based on the metered consumption of water. However, numerous adjustments must be made to the billings because:

- they are sometimes based on estimated usage and then corrected when actual meter readings are obtained;
- the electronic meter reading system picked up an incorrect reading;
- late charges reversed as a result of the payment being in transit when the late charge was assessed; or
- a customer has more than one account and the payments were applied to the wrong account.

We reviewed customer adjustments for two months during the audit period and determined that 155 adjustments were made to customer accounts, including:

- in March 2004, \$4,074 in reductions to customer account balances and \$2,456 in increases to customer account balances, totaling \$6,529.90 in gross adjustments; and
- in July 2005, \$742 in reductions to customer account balances and \$2,798 in increases to customer account balances, totaling \$3,540 in gross adjustments.

We found that the controls over the adjustment process were inadequate. The foreman, the account clerk and two other employees had system access to make adjustments and the system did not keep a history of the user who entered each adjustment, and therefore accountability could not be fixed. We also found no evidence that the adjustment report was reviewed or approved by a supervisor. As a result, inaccurate and unauthorized adjustments could be entered and not immediately detected.

AUDIT FINDINGS AND RECOMMENDATIONS

Audit Recommendations:

The District should:

- a. ensure that the adjustment reports are reviewed and approved by a supervisor with no ability to enter adjustments into the system, and evidenced with the supervisor's signature and date of the review; and
- b. modify its system to capture and report the name of the employee making each adjustment.

Audit Finding (6):

Shopping Club Memberships

A review of cash disbursements showed that the District provided Costco memberships to the commissioners and the Superintendent along with free membership cards for their spouses. The District does not have a policy that allows it to provide shopping club memberships to its employees, and there was no evidence of a clear business purpose for incurring these membership fees. Furthermore, the commissioners should not have the responsibility to make purchases for the District.

Audit Recommendations:

The District should discontinue Costco memberships.

Audit Finding (7):

Commissioner Compensation

During the audit period commissioners were compensated at a rate of \$80 per day³ "actually and necessarily spent in the service of the district." The \$80 was a flat fee, whether the commissioner worked for an hour or a full day. In order to be entitled to this compensation, the services rendered must not have been "wholly nominal and unsubstantial" or "trivial or inappreciable."⁴

We noted a general lack of internal controls over the commissioners' timekeeping. The commissioners are paid for attending regular board meetings, for attending professional organization meetings, and for other days when they are in attendance at the District's offices.

³ See N.Y. Town Law § 214 (2005). As of October 24, 2005 the statutory maximum per diem was raised to \$100 per day.

⁴ See N.Y. Op. State Comptroller 90-49 (1990).

AUDIT FINDINGS AND RECOMMENDATIONS

The Board has not set forth any policies requiring board members to attest to time they work or to provide written descriptions of the District business they performed on the days when there were no board meetings. The documentation supporting the days the commissioners were paid was inadequate because it consisted only of lists prepared by the account clerk of the dates the commissioners worked, without any notations of the hours worked, the meetings attended or District business performed.

As shown in the table below, the combined per diem compensation of the three commissioners was \$28,160 in 2004 and \$26,960 in 2005. Based on a review of the board minutes and professional organization meeting registration fees, we determined that the amounts for 2004 and 2005 included \$ 24,640 and \$ 23,200, respectively, for attendance at board and professional organization meetings. The remaining amounts, \$3,520 in 2004 and \$3,760 in 2005, could not be associated with meetings. Thus, the appropriateness of per diem payments totaling \$7,280 during the audit period for days when there were no board or professional organization meetings could not be determined since there was no record to show that the work performed by a commissioner was not nominal, trivial or inappreciable.

	Per Diem Compensations Paid to Commissioners								
	<u>2004</u>			<u>2005</u>			<u>Audit Period Total</u>		
	Number of Meetings	Number of Per Diems	Earnings	Number of Meetings	Number of Per Diems	Earnings	Number of Meetings	Number of Per Diems	Earnings
Board Meetings	85	255	\$20,400.00	81	237	\$18,960.00	166	492	\$39,360.00
Outside Meetings	31	53	\$4,240.00	26	53	\$4,240.00	57	106	\$8,480.00
Total Meetings	<u>116</u>	<u>308</u>	<u>\$24,640.00</u>	<u>107</u>	<u>290</u>	<u>\$23,200.00</u>	<u>223</u>	<u>598</u>	<u>\$47,840.00</u>
Other		44	\$3,520.00		47	\$3,760.00		91	\$7,280.00
Total		<u>352</u>	<u>\$28,160.00</u>		<u>337</u>	<u>\$26,960.00</u>		<u>689</u>	<u>\$55,120.00</u>

We also determined that the number of professional organization meetings attended and the number of commissioners attending each meeting appeared unreasonable. On average, professional organization meetings were attended by more than one commissioner 56% of the time, resulting in 53 per diem payments to commissioners to attend 31 professional organization meetings in 2004 and 53 per diem payments to commissioners to attend 26 professional organization meetings in 2005.

Commissioners' Retirement Reporting

The New York State Employees Retirement System (“NYSERS”) requires that employers report time worked based on the number of days actually worked.⁵ For elected officials, the governing board of a municipality is directed to establish a standard workday to be used as the basis for retirement system reporting, which should not be less than six hours per day. Elected officials must keep a record of activities for a period of one month containing a daily detail of hours worked and duties performed directly related

⁵ New York State Employees Retirement System Employer’s Guide. June 2004, p. 100.

AUDIT FINDINGS AND RECOMMENDATIONS

to the position, which is used as the basis for reporting time worked. To determine the number of days to be reported, NYSERS prescribes taking the total number of hours worked by the elected official, based on the record of activities, and dividing that total by the standard work day that was established by board resolution.

The District reported that one commissioner worked 122 days in 2004 and 116 days in 2005 to the New York State Employee's Retirement System for retirement credit purposes. (The other two commissioners were already NYS retirees and were not reported.) We could not ensure that the District was correctly reporting time for the commissioner because the District did not:

- maintained a record of how many hours the commissioner worked during the course of the days reported;
- provide any evidence that a record of the commissioner's activities was performed for a one month period to be used in establishing a standard workday; and
- did not provide evidence that the District established a standardized workday by Board resolution.

Commissioners' Health Benefits

As part of their compensation, the commissioners, who were part-time employees, were offered fully paid medical, dental and vision insurance. In addition to the \$55,120 in per diem compensation paid the commissioners, the District incurred a total cost of \$59,401 for their health insurance over the audit period.

Audit Recommendations:

The District should:

- a) set standards and develop specific written criteria that must be met before a commissioner is entitled to receive per diem compensation. Written procedures should be developed to describe the information each commissioner must attest to for each per diem payment. For example, such information would include the day, time and number of hours worked and the nature of the work performed, in sufficient enough detail to assure taxpayers that the services rendered are not nominal, trivial or inappreciable;
- b) establish policy as to compensated attendance at civic and professional organization meetings, including the meetings that should be attended and the number of commissioners who should attend each meeting;
- c) establish, through Board Resolution, a standard workday for elected officials;
- d) keep a record for a one month period to determine the number of hours worked by the commissioner during the month in order to determine the number of standard workdays per month;
- e) only report time to NYSERS consistent with NYSERS regulations; and

AUDIT FINDINGS AND RECOMMENDATIONS

- f) terminate medical, dental and vision insurance for commissioners.

Audit Finding (8):

Commissioner's Travel, Meeting and Conference Expenses

General Municipal Law §77-b allows the District to pay for actual and necessary expenses incurred by authorized district officers and employees attending a conference. During the audit period 2004 and 2005 the District did not have a travel policy in place. The board recognized the need for a policy in December 2005 and adopted a travel policy through a resolution at the regular Board meeting of February 28, 2006. The adopted policy, however, does not state which conferences qualify for expense reimbursement, how often such conferences should be attended, or how many employees should be permitted to attend each conference. In addition, the District does not require that the reimbursement documentation for each conference include an explanation of how the trip relates to District business.

The three commissioners attended the annual American Water Works Conference held in Orlando, Florida in 2004 and San Francisco, California in 2005. The business need for all three commissioners to attend the conference each year is questionable. Although the commissioners did not receive per diem compensation for attending the conference each year, which would have been prohibited under GML §77-b, the District did incur expenses of \$8,778 in 2004 and \$10,412 in 2005 for registration fees, airfare, hotel accommodations, meals, ground transportation and miscellaneous other expenses. The District reimbursed employees for meals, sometimes at costs that were almost double the \$51 and \$47 per day permitted for travel in San Francisco and Orlando, respectively, by the U.S. General Services Administration for federal government employees during the audit period. At the two conferences, \$2,213 was spent on meals and approximately \$600 of that, which represents about 27% of the total meal spending, exceeded the federal rates.⁶ The travel policy, adopted in 2006, also permits an excessive \$100 per day meal allowance.

We found that the commissioners submitted expense reports without receipts and for expenses that, according GML §77-b, should have been incurred by the commissioners themselves since they were not pertinent to their attendance at the conferences. We found that the commissioners were inappropriately reimbursed for travel related expenses totaling \$1,047 during the audit period as follows:

- \$737 for hotel expenses incurred the day after a conference ended. The approved hotel bills included an additional night's lodging for a conference that ended at 12 noon with no apparent business purpose for the extra night;

⁶ United States General Services Administration, Fiscal Year 2005 per Diem Rates for San Francisco and Orlando.

AUDIT FINDINGS AND RECOMMENDATIONS

- \$161 for snacks in addition to the cost of meals; and
- \$149 for coffee, taxis, and snacks even though they did not include supporting receipts to document the nature and amount of the expenditure.

In addition to the conferences, we also found that the District reimbursed registration fees for civic associations and attendance at professional meetings. Specifically, we found as follows:

- the Superintendent was reimbursed \$2,037 for registration fees to attend 64 Rotary Club meetings during the audit period. The reimbursement documentation lacked a stated business purpose for each meeting. The relevance of these meetings to District business could not be determined; and
- the commissioners were reimbursed \$4,155 for registration fees to attend 57 professional organization meetings during the audit period. It should be noted that the \$4,155 reimbursement for registration fees was in addition to the per diem compensation of \$8,140 paid to the commissioners to attend the professional organization meetings (See Audit Comment # 7).

Rotary Club meetings and professional organization meetings fall outside the definition of a “conference” within GML § 77-b, which defines conference as “a convention, conference, or school conducted for the betterment of any municipality...” The State Comptroller, however, has opined that local government has an implied authority to pay membership dues in certain associations if the governing board of the local government reasonably determines that the performance of its statutory functions will be enhanced by such membership and that it will receive sufficient benefits to that end to constitute fair consideration for the cost of membership.⁷

Here, the District has not established a clear policy or made a determination that specific meetings or memberships would enhance the functions of the District, and that the District will receive sufficient benefits to constitute fair consideration for the cost of the membership.

The District has failed to correct this since the New York State Comptroller examined the District in 1996 and found that payments were made for attendance at meetings without adequate support of the business purpose. In its response to that audit, the District only addressed the specific errors, but did not develop a policy requiring that evidence of the business purpose be attached to the claim documentation. Although the Comptroller’s 1996 audit cited inadequate documentation, the District’s travel policy adopted in 2006 did not include documentation requirements.

⁷ See State Comptroller Opinion 2000-20 (Dec. 1, 2000).

AUDIT FINDINGS AND RECOMMENDATIONS

Audit Recommendations:

The District should:

- a. develop a policy regarding the District's financial responsibility for reimbursing the cost to attend civic and professional organization meetings, including which organization's meeting expenses will be reimbursed, the permitted frequency of attendance and the number of representatives authorized to attend any one meeting. The District should only reimburse the cost to attend civic and professional organization meetings that would directly benefit the District;
- b. evaluate its meal allowance reimbursement policy in light of maximum amounts permitted by the U.S. General Services Administration for federal government employees; and
- c. refuse to approve expenditures that are not supported by receipts.

Audit Finding (9):

Payroll and Time and Leave

We found that the District did not maintain adequate time records for a part-time employee to support wages of \$27,337 during the audit period. Time worked by the employee was recorded by the account clerk on her desk calendar. The District did not require that the employee attest to the time worked or that a supervisor certify its accuracy. Such a certification process helps provide a segregation of duties to help ensure that employees are not paid for time not worked. We noted that in 2006, the District implemented an electronic swipe card system to record time worked; however, the Superintendent and part-time employee were not included in the system, and the system records were not retained.

We also found that while the District's contract with the union requires employees to complete a Request for Leave form for the approval of vacation, personal or sick leave, the District does not enforce this requirement. In addition, the District does not have a policy for approval of the non-union employees' requests for leave, which would include the Superintendent. The District's failure to require preauthorization for leave could result in employees taking unauthorized leave or failing to be charged for leave taken.

We found that the controls over the authorizations and reporting of overtime were inadequate. The union contract requires that overtime be authorized in advance. We could not verify if overtime was authorized because no written authorizations are issued. We were told that the foreman verbally informed the Superintendent of the need for overtime for non-administrative employees ("field workers"). The overtime hours reported by the field workers on their time sheets did not contain any written approval by supervisors or the Superintendent. As a result, these field workers who earned

AUDIT FINDINGS AND RECOMMENDATIONS

approximately \$134,500 in overtime in 2004 and \$154,700 in 2005 may have been paid for overtime that was unnecessary or unauthorized. In addition, the account clerk, an administrative employee covered under the union contract, was paid \$10,800 in overtime in 2004 and \$9,600 in overtime in 2005. Similarly, we found no preauthorization or approval for this overtime.

We also found that the Superintendent was paid \$3,800 in 2004 and \$1,800 in 2005 in addition to his annual salary for attendance at Board meetings. One of the Superintendent's basic functions is to keep the Board informed of the District's financial condition and operational issues.

The District uses an outside service bureau to prepare its payroll. We found an inadequate segregation of duties over the payroll function. The payroll clerk:

- manually completes a preprinted worksheet to provide current pay period data to the service bureau;
- reviews payroll reports from the service bureau for the accuracy of the data entered; and
- works without supervisory review.

As a result, errors or deliberate manipulation of payrolls may not be detected.

Audit Recommendations:

1. The District should require:

- a. all employees to be included in the electronic swipe card system used to record time worked and that the system's records are retained for audit trail purposes;
- b. the Superintendent's written authorization prior to working overtime;
- c. supervisory certification of all overtime reported in the electronic swipe system. Overtime hours worked but not recorded through the electronic swipe system should not be compensated as a matter of routine. If special circumstances prevent the hours being swiped, the written approval of the Superintendent should be obtained prior to compensating the employee and this approval should be retained with the time records for audit trail purposes;
- d. forms to be completed and approved for all leave taken; and
- e. evidence of supervisory review and approval of bi-weekly data sheets sent to the payroll service bureau and the reports received back from the service bureau.

2. Compensation for attending Board meetings should be considered as included in the Superintendent's annual salary and no additional compensation should be paid.

AUDIT FINDINGS AND RECOMMENDATIONS

Audit Finding (10):

Fixed Assets

The District's fixed asset capitalization policy requires all equipment costing over \$500 to be capitalized and depreciated over its useful life. We found that the District violated this policy because it did not capitalize its 26 motor vehicles nor did it establish control by including them in its fixed asset inventory. As a result, the District's financial statements were not in compliance with GASB 34 because fixed assets and accumulated depreciation were understated.

Audit Recommendations:

The District should comply with its fixed asset policy and record its vehicles in its fixed assets inventory and depreciate them over their useful lives.

Audit Finding (11):

Overpayment

The District's cash disbursements procedures did not require that all invoices be compared to vendor history records to detect goods or services previously billed and paid by the District. We were told by the account clerk that a vendor's file is usually reviewed when verifying invoices; however, the nature of the review and what is verified is not evidenced on the voucher.

We found that the District was not aware of an error on one of the 35 invoices submitted by its attorney. The attorney billed the District twice for services in connection with the District's 2004 annual election. Although the two bills were for the same election, the dates of service were slightly different on each and one less hour was included on the second bill. Both invoices for \$1,200 and \$1,050 were paid by the District. Upon advising the District of this error, the account clerk contacted the attorney and determined the second bill for \$1,050 was an error. Had the District checked for duplicate payments and compared the second bill to the one previously paid, it could have prevented the overpayment and questioned the discrepancy in the number of hours billed. Reimbursement of the \$1,050 was requested and received by the District prior to the end of our fieldwork.

Audit Recommendations:

The District should enhance its cash disbursements procedures to require that all invoices be compared to vendor history records to detect goods or services previously billed and paid by the District. Evidence that this review was performed

AUDIT FINDINGS AND RECOMMENDATIONS

should appear on the claim voucher and observed by the commissioners prior to approving claim vouchers for payment.

Appendix

DISTRICT'S RESPONSE AND AUDITOR'S FOLLOW-UP

The District has completed its revised review of the above referenced audit and has enclosed our coordinated responses to your findings and recommendations.

The Board of Commissioners of the Hicksville Water District fully cooperated with auditing personnel from your office. The Board always believed that the audit process should truly be looked at as a learning experience that provides the Commissioners with an independent, fair and objective appraisal of the effectiveness of financial systems and operational performance in accordance applicable laws and financial controls.

First and foremost, this report shows no evidence of violations of laws or regulations, nor did it uncover fraud, or abuse of taxpayer funds.

As your office is aware the State Comptroller's policy is to include the entire audit response into the final document and we respectfully request that our response is included its entirety.

There are two items contained within the report that the District believes should be removed, and they are;

1. The procurement practices of the District comply with Section 104-b of the General Municipal Law. That statute provides the Board with a level of discretion which has been exercised. We can accept that your office may disagree with this determination, but we take the position that our policy complies with the General Municipal Law.
2. Audit Finding 4 is filled with innuendo and is grossly unfair on the face of it. What does "apparent conflict of interest" mean? The relationship between the Engineer and the District is fully out in the open as are all actions of the Engineer and the Board. Professional Engineers are governed by a strict code of ethics; in fact, its first provision is - "Hold paramount the safety, health, and welfare of the public". The Engineers code also calls for Engineers to - "Conduct themselves honorably, responsibly, ethically, and lawfully so as to enhance the honor, reputation, and usefulness of the profession"..

In general, the core of the report content is strictly subjective in nature and the opinion of the auditor preparer without essential regulatory evidence to support the language contained within the report. Nevertheless, the District has culled through the report details and addressed and in most cases, accepted the recommendations as best management practices and adopted them to enhance our already fluent and efficient operation.

Appendix

DISTRICT'S RESPONSE AND AUDITOR'S FOLLOW-UP

Following several drafts, the audit ended up with eleven (11) headings with thirty-two (32) subsequent findings and recommendations that will be addressed hereto;

Cash and Investments

Audit Recommendation: The District should promulgate and implement written procedures covering the reconciliation process.

Response: The District has had an effective reconciliation process for many years. Nevertheless, the District has put in place a written procedure for a more formal bank reconciliation to be conducted each month by the account clerk.

Audit Recommendation: The District should prepare bank reconciliations using a standardized format, such as the one typically preprinted on bank statements.

Response: While all District statements have always been reconciled balanced, the Board has enacted a procedure for a more formal bank reconciliation to be conducted each month by the account clerk.

Audit Recommendation: The District should obtain and review images of the canceled checks to ensure that they were endorsed by the payee.

Response: We recognize that this is a very time-consuming procedure. However, until an alternative procedure is identified, the District will comply. The District has contacted our banking institution to routinely send us the front/back of each check image for all canceled checks.

Audit Recommendation: The District should ensure that bank reconciliations are signed and dated by the preparer and the chief fiscal officer (CFO).

Response: The Board has developed a control for the checking and reviewing of bank statements. This control includes the Treasurer reviewing, signing and dating each bank reconciliation.

Audit Recommendation: The District should require the CFO to pre-approve all investments decisions.

Response: The Board will continue its current practice of monitoring and approving all investment decisions at their regular board meetings.

Audit Recommendation: The District should keep their check stock in a secured location and maintain a perpetual inventory record.

Appendix

DISTRICT'S RESPONSE AND AUDITOR'S FOLLOW-UP

Response: The Board has addressed and implemented new security measures related to the Districts supply of computer-generated checks and will maintain an inventory record moving forward.

Audit Recommendation: The District should destroy check stock from closed accounts and keep a written record of the checks destroyed and employees in attendance at the time.

Response: The District was under the opinion that the retention period of closed bank accounts was 6 years. However, moving forward the District will destroy all old check stock when an account is closed.

Auditor's Follow-up Response:

We concur with the corrective actions taken by the District; however, we recommend that the District compare rates for investments offered by banks instead of routinely rolling over existing certificates of deposits. As part of its competitive review of rates, the District should also require that investment decisions be pre-approved by the CFO. The Board's current practice of monitoring and approving investments at regular Board meetings represents approval after the investment has been made. This may subject the District to lost interest revenue if an investment is not approved and withdrawn prematurely.

Purchasing Contracts

Audit Recommendation: The District should comply with its procurement policies by obtaining the required quotations, documenting all verbal quotations and retaining copies of all written quotations, paid invoices and other supporting documentation for audit trail purposes. The Board should ensure that the appropriate evidence of competitive bidding accompanies all purchases prior to authorizing purchase orders.

Response: The Board has reviewed the findings relative to procurement practices with District purchasing staff, and has reiterated with all affected personnel the need to conform to our current policy. Additionally the District as implemented a policy that all quotations must now be in writing and verbal quotations will no longer be accepted.

Auditor's Follow-up Response:

We concur with the corrective actions taken by the District.

Appendix

DISTRICT'S RESPONSE AND AUDITOR'S FOLLOW-UP

Procurement of Professional Services – Lack of Compliance with GML-104-b

Audit Recommendation: The District should amend its procurement policy to ensure that a competitive procurement for services is required consistent with the intent of GML§104-b, including the specific procedures to be followed.

Audit Recommendation: The District should engage in a competitive procurement process to evaluate whether other engineering firms would provide better or more cost effective services.

Combined Response: Competitive bidding is not required for the procurement of engineering services. The Board acted within the level of discretion afforded under Section 104-b of the General Municipal Law in order to design a procurement and purchasing policy where the procurement of professional services would not require a request for proposal process. The Board believes that procurement of professional service is an endeavor where selection should be based upon a level of skills, knowledge and training and the services that can be offered by the professional firm. The Board does not believe professionals and professional firms can be compared based upon the price offered. The Board has endeavored to select an engineering firm based upon its experience and knowledge in the science of water supply and environmental issues. It has also retained the services of its engineering firm because of its intricate knowledge of the Hicksville Water District's plants, distribution system, and support facilities. There is a value to the residents and ratepayers that come from continuity of representation from professionals that is difficult to quantify in dollars and degree of efficiency of operations, but we are certain that in the long run our residents and ratepayers benefit from the use of one engineering firm. Many projects take several years to complete and the level of continuity is important. The Board is of the view that it undergoes a qualification based selection process in its annual appointment process. The Board has selected what in its view is the Engineering firm that has the depth of staff, the demonstrated expertise and intimate knowledge of the District and its operations needed by the District. The Board has the ability, the responsibility and the opportunity to judge the performance of the Engineering firm in all aspects of its professional services – from planning, through design and services during construction. The Board relies on the Engineer's knowledge of the integrated water system and its complex operations. The role of the Engineer goes well beyond single project assignments. The Engineer is subject to the renewal of its contract on an annual basis at the District's re-organization meeting. The District is familiar with the other professional firms who work in this region and is cognizant of the professional service offered by the Engineers for other Districts. The Board is of the view that

Appendix

DISTRICT'S RESPONSE AND AUDITOR'S FOLLOW-UP

it gets full value for the services that it obtains from its Engineer not only in their fees but also in the quality of their plans and designs that result in lower costs and cost-effective long term solutions. The Board is confident that it pays at or below the market rate for engineering and legal services, and has followed the recommendation made by the Comptroller in other audits by hiring professional firms with expertise in their particular municipal service discipline rather than hiring individual professionals as paid full time or part employees who are then provided with health care and other benefits.

Auditor's Follow-up Response:

We reiterate our recommendations. Since the District has not engaged in a competitive procurement process in 35 years, it is unclear to us how the Board can be confident that it is receiving at or below market rates for engineering services.

Over Reliance on Engineering Firm – Possible Conflict of Interest

Audit Recommendation: The District should separate the function of engineering advisor and engineer performing the recommended work. The District, for example, might hire an engineering firm to serve exclusively as an advisor on the need for repair or construction work and separately procure an engineer to perform the work.

Response: The audit report seems to ignore the process that is involved with District planning and project execution. The Engineer from time to time prepares a Master Plan at the direction of the Board to look at long term issues. These plans receive considerable input from the District's staff and its full time Superintendent. The plans are then discussed at numerous Board meetings to review the projects, their impact on operations, their costs and their impact on budgets. After a thorough review by the Board they then set their priorities. The project work that is proposed is most often driven by water quality, modernization and efficiency considerations. In all that the Engineer does they are guided by the Ten State Standards, the requirements of the U.S. EPA, the N.Y.S. and Nassau County Departments of Health and the N.Y.S. DEC. All the major plans of the District are presented to the community in public meetings and the residents are also provided with updates of progress. The District also communicates with their residents through their District newsletter. The District decides the projects that are in its interest and the timing of their implementation. All specific projects are subject to the review and approval of the District. All projects are submitted to the appropriate regulatory agency [DOH or DEC] for their approval. All capital programs of the District that require bonding are subject to the review and approval of the Towns. The annual budgets of the District which include all the

Appendix

DISTRICT'S RESPONSE AND AUDITOR'S FOLLOW-UP

capital programs financed out of operations are submitted to Towns of Oyster Bay and Hempstead and entire process has numerous elements of checks and balances. The handling of engineering works from planning through design and then into construction is not at all unusual. In fact, it is the recommended practice. ASCE Manual No. 45 states in part: "...it is usually best for the client to select a consultant who can support project from conception through design, construction and project startup." In point of fact, there is no reason at all to separate the role of the Engineer as suggested in the audit report. The District has the benefit of getting the best advice from a planning point of view and the best execution from a project point of view. To think the Engineer would recommend something just to get a project is absurd. It would also be clearly unethical and against the fundamental tenets of the profession – individually and corporately.

Auditor's Follow-up Response:

We reiterate our recommendations. The finding addresses the engineers' apparent conflict of interest in benefiting from making recommendations and then performing the work recommended. This is a practical issue regarding the objectivity of the professional advice provided to the District. The District should not rely on a profession's code of ethics as assurance that its service providers are objective in their recommendations.

Audit Recommendation: The District should competitively procure engineering services consistent with the requirements of the General Municipal Law. The District should consider procuring engineering services for repair and construction on a project by project basis, rather than giving one firm an annual contract to do all engineering work in the District.

Response: In our position that went uncontested by the State Comptroller in 1996, the Board does not obtain proposals for professional services such engineers, and utilizes one engineering firm for all projects. The Board understands the rationale behind the recommendation that quotes are solicited and the work is divided. However, the Board believes that the unique nature of a water District operation calls for one engineering firm to be assigned all of the work for the District. Unlike other municipalities we do not have the benefit of assigning projects which are distinct and diverse: the Board is responsible for the maintenance of one unified system of waterworks. To have one engineer handle a water main project in the northern part of the District, one handle a water main project in the southerly part of the District, and still another handle a treatment project at a water plant site would prove unmanageable, and would not be economically viable. This District must use one engineering firm qualified to coordinate both day to day operations and this capital plan. The Board believes that its engineering firm is the appropriate choice to continue in its present capacity

Appendix

DISTRICT'S RESPONSE AND AUDITOR'S FOLLOW-UP

because of the unique skills, training, facilities, and knowledge of the Hicksville Water System which that firm and its professional staff possess. The economies realized in using one firm, and the support that firm is able to provide the District Superintendent and his staff justifies a one engineer operation. We would also note that this Board has first hand experience in dealing with the coordination problems created by having to use multiple prime contractors under the Wicks Law. We do not want the burden of coordinating several engineering concerns placed on our staff. We also believe that the use of one engineering firm and its ability to coordinate all work on an ongoing basis reduces the number of meetings that the Board must hold and the number of per diems that must be paid to commissioners in order to do the work of managing the District.

Auditor's Follow-up Response:

We reiterate our recommendations. The New York State Comptroller's 1996 Report of Examination states that it discussed its findings and recommendations with the District and considered the District's comments in preparing the report. Although the District's response indicates that its position was uncontested, the State Comptroller's report included the recommendation that the District should obtain engineering services through a competitive process by requesting proposals.

Our audit found that the Board met 85 times in 2004 and 81 times in 2005, or approximately once every three work days. If the Board believes that the use of more than one engineering firm will require more frequent meetings, it should consider the additional cost in evaluating the proposals.

Adjustment to Revenues

Audit Recommendation: The District should ensure that the adjustment reports are reviewed and approved by a supervisor with no ability to enter adjustments into the system, and evidenced with the supervisor's signature and date of the review.

Response: The District always reviewed and approved all journal entries, however the District has established a policy where all journal entry adjustments are now signed and dated by a supervisor. The approving supervisor does not have the ability to make adjustments to the entries.

Audit Recommendation: The District should modify its system to capture and report the name of the employee making each adjustment.

Appendix

DISTRICT'S RESPONSE AND AUDITOR'S FOLLOW-UP

Response: A software adjustment has been made to the existing computer system that defaults to an employee number when adjustments are made. Additionally, the employee number is displayed on all transactions when printed.

Auditor's Follow-up Response:

We concur with the corrective actions taken by the District.

Shopping Club Memberships

Audit Recommendation: The District should discontinue Costco memberships.

Response: The District became members of Costco's to purchase water District items at a discounted rate. Since the membership included additional cards at a no additional cost to the District, the Board members and spouses were placed on as members. There is no benefit to the Commissioners as individuals, and no annual membership fee. Nevertheless, the District will discontinue the use. However, recent problems in other water suppliers in obtaining bottle water for emergency use, the use of wholesale supplier is encouraged and the District will investigate a single card for District use only.

Auditor's Follow-up Response:

We recommend that the District eliminate the membership entirely.

Commissioner Compensation

Audit Recommendation: The District should set standards and develop specific written criteria that must be met before a commissioner is entitled to receive per diem compensation. Written procedures should be developed to describe the information each commissioner must attest to for each per diem payment. For example, such information would include the day, time, number of hours worked and the nature of the work performed, in sufficient enough detail to assure taxpayers that the services rendered are not nominal, trivial or inappreciable

Audit Recommendation: The District should establish policy as to compensated attendance at civic and professional organization meetings, including the meetings that should be attended and the number of commissioners who should attend each meeting.

Combined Response: The Board has established a new procedure to govern what meetings will be reimbursed as per diem meetings. In addition it covers what records maintenance and processing of commissioner per diems. The new

Appendix

DISTRICT'S RESPONSE AND AUDITOR'S FOLLOW-UP

procedure provides records the Comptroller seeks. This procedure will give insight into the countless hours devoted by the commissioners of the District.

Audit Recommendation: The District should establish, through Board Resolution, a standard workday for elected officials;

Audit Recommendation: The District should keep a record for a one month period to determine the number of hours worked by the commissioner during the month in order to determine the number of standard workdays per month;

Audit Recommendation: The District should only report time to NYSERS consistent with NYSERS regulations.

Combined Response: At a regular meeting of the Board, the District passed a resolution using the June 2004 New York State and Local Retirement System guidelines for developing a consistent standard workday, and reporting criteria. The reporting criterion includes; recording the number of hours worked each month to satisfy the reporting requirements related to the New York State retirement system.

Auditor's Follow-up Response:

We concur with the corrective actions taken by the District.

Audit Recommendation: Terminate medical, dental and vision insurance for commissioners.

Audit Response: As noted previously, no regulation, law or policy has been violated. The District has for many years, offered benefits to their elected officials. Furthermore, all Commissioners have opted out of receiving medical benefits and moving forward the District will take the audit recommendation under consideration.

Auditor's Follow-up Response:

We concur with the corrective action taken by the District.

Appendix

DISTRICT'S RESPONSE AND AUDITOR'S FOLLOW-UP

Commissioner's Travel, Meeting and Conference Expenses

Subsequent to the initial audit, the scope of this audit was revised to include 2006 and as such the Commissioner's travel, meeting and conference expenses within these audit findings were revised.

Auditor's Follow-up Response:

The scope of the audit period was not revised and the audit findings relate to the audit period. The District subsequently issued the travel policy. We reviewed it to determine if it addressed our findings and if we could make any recommendations to strengthen it.

Audit Recommendation The District should develop a policy regarding the District's financial responsibility for reimbursing the cost to attend civic and professional organizational meetings, including which organization's meeting expenses will be reimbursed, the permitted frequency of attendance and the number of representatives authorized to attend any one meeting. The District should only reimburse the cost to attend civic and professional organization meetings that would directly benefit the District.

Response: As indicated in the above response under Commissioner Compensation (Finding 7), the Board has established a new policy to govern what meetings will be reimbursed as per diem meetings. In addition it covers what records maintenance and processing of commissioner per Diems.

Audit Recommendation: The District should evaluate its meal allowance reimbursement policy in light of maximum amounts permitted by the U.S. General Services Administration for federal government employees.

Response: The District will review its current travel policy and the U.S. General Services Administration (USGSA) regarding meal allowance reimbursement.

Audit Recommendation: The District should refuse to approve expenditures that are not supported by receipts.

Response: The district in its existing travel policy requires meal receipts for all meals (Over \$10.00.)

Appendix

DISTRICT'S RESPONSE AND AUDITOR'S FOLLOW-UP

Auditor's Follow-up Response:

We concur with the corrective actions taken by the District.

Payroll and Time and Leave

Audit Recommendation The District should require all employees to be included in the electronic swipe card system used to record time worked and the system's record are retained for audit trial purposes.

Response: All salaried employees are now required to use the keyless entry system to record time.

Auditor's Follow-up Response:

We concur with the corrective action taken by the District.

Audit Recommendation The District should require the Superintendent's written authorization prior to working overtime.

Response: It is not always feasible to obtain written authorization prior to the employees working overtime. The water District is a 24 hour/7 day per week operations. Emergencies often arise and employees are called in for overtime during the night or on weekends. The employees must record their time and report to work with the assigned foreman. Other overtime is scheduled in advanced and in effect has the Superintendent's approval. Electronic time cards are used to record all time.

Auditor's Follow-up Response:

Our audit finding was that there were no written authorizations from the Superintendent or supervisors for employees to work overtime. We recognize that it may not always be possible to obtain the Superintendent's written authorization for field workers in advance. In those cases the authorization should be documented as soon as possible and attached to the timesheets. Written authorization for overtime scheduled in advance should be obtained prior to the overtime being incurred.

Audit Recommendation The District should require supervisory certification of all overtime reported in the electronic swipe system. Overtime hours worked but not recorded through the electronic swipe system should not be compensated as a matter of routine. If special circumstances prevent the hours swiped, the written approval of the

Appendix

DISTRICT'S RESPONSE AND AUDITOR'S FOLLOW-UP

Superintendent should be obtained prior to compensating the employee and this approval should be being retained with the time records for audit trail purposes.

Response: All overtime is currently recorded in the swipe system and certified by someone in supervisory capacity.

Audit Recommendation The District should require forms completed and approved for all leave taken.

Response: The Board has developed a new procedure for documenting approved employee leaves.

Audit Recommendation The District should require evidence of supervisory review and approved of bi-weekly data sheets sent to the payroll service bureau and the reports received back from the service bureau.

Response: The Board has developed a new procedure for maintaining payroll and employee time records in order to address the recommendations of the auditors.

Audit Recommendation Compensation for attending Board meetings should be considered as included in the Superintendent's annual salary and no additional compensation should be paid.

Response: The superintendent is currently under contract (2006 through 2010). This contract includes a 3-year reduced stipend for meetings which will expire at the end of his 2008 contract year. Starting 2009, the superintendent will no longer paid for meetings.

Auditor's Follow-up Response:

We concur with the corrective actions taken by the District but continue to recommend that the District amend its existing contract with the Superintendent to eliminate separate payments for attendance at Board meetings.

Fixed Assets

Audit Recommendation The District should comply with its fixed asset policy and record its vehicles in its fixed assets inventory and depreciate them over their useful lives.

Appendix

DISTRICT'S RESPONSE AND AUDITOR'S FOLLOW-UP

Response: The vehicles referred to in the audit were older vehicles that had no book value (i.e., they were fully depreciated). All newer vehicles have been and will continue to be recorded at historical cost within the fixed asset record.

Auditor's Follow-up Response:

Assets that are still in use should be included in the financial statements at historical cost along with the related accumulated depreciation balance. These balances should be taken off the ledger only when the asset has been disposed of.

Overpayment

Audit Recommendation The District should enhance its cash disbursements procedures to require that all invoices be compared to vendor history records to detect goods or services previously billed and paid by the District. Evidence that this review was performed should appear on the claim voucher and observed by the commissioners prior to approving claim vouchers for payment.

Response: The audit finding is an isolated error. In the future, the District will review vendor history in order to prevent such errors. All previous invoices are always checked when a new invoice is received, which is standard procedure.

Auditor's Follow-up Response:

We concur with the corrective action taken by the District.

In summary, the Board continues to work with our staff to improve financial procedures and practices based upon the recommendations of the auditors. ***It believes that the audit shows that the District is well run, free from abuse and fraud.*** Every local government can improve and the Board is working on improvements.