

**Nassau County
Office of the Comptroller**



**Limited Financial Audit of Sanitary District No. 7
Town of Hempstead
Review of Procedures and Internal Control Environment**

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Comptroller

December 29, 2009

**NASSAU COUNTY
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Executive Summary

Background

Solid waste collection and disposal, for residents in the unincorporated areas of towns in Nassau County (the “County”), is organized by sanitary districts. Owners of homes and businesses within the sanitary district fund the district through property taxes, and the district provides services to the residents and some of the businesses located in the district.

Sanitary districts are run either by the Town Board or by elected Commissioners. Sanitary districts that are headed by the Town of Hempstead are run as a single administrative department of the Town. Sanitary districts that are headed by elected Commissioners are run independently by the Board of Commissioners.

Town of Hempstead Sanitary District No. 7 (the “District”) serves the community of Oceanside and was established by the Town of Hempstead on July 14, 1931.¹ This audit report reviews the internal control environment of the District, which provides refuse collection services to approximately 10,025 residential and 925 commercial parcels.² The District provides curbside garbage collection six days a week (three days a week to each side of the community) and additional recycling, newspaper, and trash and metal pick-up services.

The District is governed by a Board of Commissioners (the “Board”), consisting of five members who are elected for a five-year term. Total District expenses were \$6,505,077, \$6,820,389, and \$6,984,186 in 2006, 2007, and 2008, respectively.³

The District derives its operating revenues from real property taxes collected by the Town of Hempstead and forwarded to the District semiannually. Additional District revenues are derived from interest earned on investments, payments in lieu of taxes and insurance recoveries and refunds. Total District revenues reported were \$6,345,887, \$7,047,204, and \$7,538,905 for 2006, 2007, and 2008, respectively.⁴

Cost Analysis of Operations

Residential and commercial property owners located within the District paid an average sanitation tax per parcel of \$676 in 2008.⁵ In contrast, the average sanitation tax paid in 2008 by property owners whose garbage is picked up by the Town of Hempstead was \$420.⁶ The cost per ton for the District was \$262 in 2007, compared to \$251 per ton for the Town of Hempstead.⁷ The Town of Hempstead provides curbside refuse pickup two times per week and recyclables pickup once per week in all areas of the Town except

¹ Chapter 516 of the Laws of 1928.

² Source: Nassau County Department of Assessment, 2009 parcel counts; 9,986 Class 1 and 39 Class 2 (total 10,025 residential parcels); 889 Class 4 and 36 Class 3 (total 925 commercial parcels).

³ Total expenses are per the District’s audited financial statements for each respective year; these amounts exclude future commitments of the District related to post-retirement obligations.

⁴ Total revenues are per the District’s audited financial statements for each respective year.

⁵ Computed as 2008 District tax levy of \$7,339,343 divided by 2008 total tax parcels of 10,861.

⁶ Computed as 2008 Town of Hempstead, Lido Beach and Merrick/North Merrick Sanitation Districts tax levies divided by 2008 total tax parcels.

⁷ Consolidation Analysis and Implementation Plan: Solid Waste, June 2008, Malcolm Pirnie, Inc.

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Merrick/North Merrick where backdoor service is provided; in contrast, the District provides curbside refuse pickup three times per week, and recycling pickups twice a week.

Audit Scope, Objective, and Methodology

The scope of our audit included an examination of the District's administrative policies and procedures; procurement and investment practices; and an analysis of its budgets, operating costs and the appropriateness of its fund balance for fiscal years 2006, 2007, and 2008. We conducted a review of the District's internal controls over cash receipts, cash disbursements, payroll, time and leave, bank accounts and bank reconciliations, and fixed assets. Our review of the internal controls was conducted to provide us reasonable assurance that there were adequate safeguards in place to protect the District's assets.

The scope of the review generally covered the period January 1, 2006 through December 31, 2008; in limited instances the review extended through May of 2009, while our fieldwork at the District was still in progress.

Our audit methodology included reviewing policies and procedures, interviewing District personnel for procedures performed and the delegation of responsibilities, and examining documents and records. The General Sanitation Supervisor (GSS) and the District Accountant were to be the primary contacts throughout the audit. The GSS was often uncooperative when responding to our requests for information or answering our questions and, at times, verbally hostile and abusive to the auditors. In addition, we interviewed each Commissioner separately to ask whether there were any concerns that they may have with the operation of the District; we also made them aware of difficulties encountered during the audit that delayed completion of the fieldwork.

We reviewed the internal controls of the District to determine if there was:

- Proper governance and independent oversight of District operations and financial activities by the Board of Commissioners;
- Policies and procedures established in written manuals to address employee responsibilities, limits to authority and control procedures, supervisory approval, and supporting documentation;
- Proper supervision and approval steps to ensure accurate transactions, minimal errors, and to achieve financial and operational objectives; and
- Complete and appropriate supporting documentation to evidence that:
 - Accounting records are reliable and accurate; and
 - Payroll and time and leave records are accurate, completed timely, reviewed, and approved by senior staff.

This audit report encompasses the findings and recommendations dealing with the District's internal control environment and financial procedures. A separate report covers the findings and recommendations regarding District compensation and fringe benefits.

Summary of Significant Findings

Work Performed Out of Title

The District circumvented civil service job requirements and mandated testing. We found that members of the District's office who held Civil Service titles of "Messenger" and "Recycling Worker" had functional titles of "Accountant", "Secretary" and "Clerk".

These employees were working out of title in non-competitive positions. The actual duties performed by each individual were associated with higher competitive titles. The employees did not take an examination for their positions and were appointed by the District's former General Sanitation Supervisor. The base salaries in 2008 for the Accountant, Secretary and Clerk were \$93,662, \$96,854, and \$88,404, respectively and were much higher than the Nassau County salary ranges for Accountant, Clerk, Recycling Worker, and Messenger.

Role of External Audit Firm

The American Institute of Certified Public Accountants ("AICPA") standards provide that auditees should designate an individual who possesses suitable skill, knowledge and experience to oversee the services provided by their external audit firm.⁸ The Standards state: "In cases where the client is unable or unwilling to assume these responsibilities (for example, the client does not have an individual with suitable skill, knowledge, and/or experience to oversee the non-attest services provided, or is unwilling to perform such functions due to lack of time or desire), the member's provision of these services would impair independence."

The District's Accountant was designated to oversee the services provided by the District's external audit firm. He did not appear to possess the skill, knowledge or experience to adequately perform the accounting functions for the District, prepare a basic draft of the audited financial statements to provide to the outside auditor, or to oversee and evaluate the adequacy and results of the services performed by the outside auditor. As a result, we believe the District over relied on its external audit firm to the extent that it impaired the external audit firm's independence.

Inadequate Segregation of Duties

Concentrating key duties, such as cash receipts, cash disbursements, bank reconciliations, and the general ledger with one individual weakens internal controls and significantly increases the risk that errors and/or irregularities might occur and go undetected and

⁸ AICPA Rule 101- Independence: General Requirements for Performing Nonattest Services

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uncorrected in a timely manner. The Office of the New York State Comptroller notes, “when functions are not or cannot be separated, then a detailed supervisory review of related activities should be undertaken by managers or officials as a compensatory control.”⁹ The District concentrated key duties such as recording cash receipts, cash disbursements, updating the general ledger, safekeeping of check stock and performing bank reconciliations with the Accountant and compensating controls, such as detailed supervisory reviews, were not in place.

Inadequate Written Policies and Procedures

The District had limited written guidelines and procedures, which existed only as brief narratives in the minutes of meetings at which they were approved or were recorded only in the notes to the audited financial statements. For example, the District did not have an organization chart, accounting manual, fixed asset policy, or petty cash policy. Additionally, management did not have copies of pertinent laws, rules and regulations governing the District.

Lack of Board Oversight

According to the New York State Local Government Management Guide covering fiscal oversight responsibilities, “a municipality’s success depends heavily upon the actions of its governing board. Through its actions, the governing board often directs and controls the day-to-day activities of local governments. Board members as fiscal stewards should be responsible both for setting the course for all financial activities and for seeing that the course is kept.”

Our review disclosed that the Board did not include sufficient detail in its minutes or meeting agenda to evidence that it was fulfilling its oversight role. The Board did not provide guidance to establish or maintain an effective and adequate system of internal controls, perform a regular comparison of budgeted to actual revenues and expenditures, or assume any role in reviewing the District’s general ledger accounts. The District was unable to provide us with a copy of a budget package or any other data used for discussion of the budget at the Board meetings.

We also found that the Commissioners did not comply with New York State Public Officers Law¹⁰, which provides that only limited matters such as those that imperil public safety, relate to litigation or property, or to personnel, may be included in Executive Session. When we met with the District to discuss our preliminary findings related to evidence of budget reviews, review of budget transfers, lease buy decision making for specific vehicles, and the acquisition and disposition of certain fixed assets, we were advised that these matters were discussed at length in Executive Sessions of special

⁹ Office of the New York State Comptroller, *Local Government Management Guide Internal Controls*, page 8.

¹⁰ New York State Public Officers Law §103 & §105

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meetings for which brief minutes only existed. As such, the public was impermissibly excluded from these discussions.

Unauthorized Use of 2006 Unreserved Fund Balance

In 2006, the District overspent its budget by \$223,069 resulting in the use of \$302,929 of its unappropriated fund balance to cover its excess expenditures. The District's audited financial statements for 2006 stated "the original budget for the General Fund for the calendar year ended December 31, 2006 was revised by approximately \$223,082. Supplemental appropriations or authorized budget amendments were approved." However, the District was unable to provide evidence of the approval¹¹ by the Town of Hempstead for the supplemental appropriation.

Unbudgeted Purchase of Sanitation Trucks

In 2006, the District obtained two sanitation trucks valued at \$174,096 each through a New York State master lease/purchase agreement. We found no written support to justify the need for two new sanitation trucks at the same time when neither purchase was included in the budget. Further, no evidence was provided by the District that a lease/buy analysis was performed to determine the best funding decision.

Preparation and Monitoring of the Budget

We found that the District's line item budget misrepresented the true nature of certain expenses and consistently over or under stated certain expenditures. For example, the District:

- excluded the current portion of its debt service as a line item in the budget, requiring a year-end budget transfer by the outside auditor. This practice may result in a reader concluding that the District had no debt or interest expense and it misrepresented the District's cash flow needs;
- misrepresented its computer services expenses as bank expenses; and
- over budgeted for new equipment. The budget for new equipment in 2006, 2007 and 2008 was \$31,000, \$125,000 and \$475,000, respectively, whereas actual expenditures were only \$7,075, \$48,851 and \$8,607, respectively.

The District's Accountant indicated that he performed periodic reviews of budget to actual revenues and expenditures but he did not retain the evidence of such reviews.

Financial Reporting of Budget Transfers

Our review of the original and adjusted budgets revealed that the adjusted line item budget amounts shown in the audited financial statements did not always agree with the sum of the original line item budget amounts and the budget transfers.

¹¹ As required by The Nassau County Civil Divisions Act (CDA 222.4).

High Fund Balance and Tax Rate Increases

We determined that the percentage of the District's Fund Balance as of December 31, 2006, 2007 and 2008 to its Property Tax Levy for 2006, 2007, and 2008, was 18.5%, 20.1% and 26.3%, respectively. Consequently, the tax rate increase of 10.4 % in 2007 and 7.4% in 2008 may have been excessive.

Lack of Internal Controls over Cash Disbursements

Our review noted that the District's internal controls over cash disbursements were inadequate to ensure that only authorized payments were made. We found that:

- claim vouchers paid during the audit period lacked the "approved for payment" stamp or initials or other legible evidence that the claim was reviewed and approved by the General Sanitation Supervisor before the check was generated;
- paid claim vouchers and invoices were not marked "paid" to prevent duplicate payment;
- claim voucher numbers were reused from year to year and there was no way to distinguish to which year a claim pertained;
- check amounts did not always agree with the claim amounts; and
- checks were not attached to the related claim vouchers when the commissioners reviewed the vouchers and signed the checks resulting in the risk of incorrect payments.

We also found that evidence of the Accountant's review of invoices for possible duplicate payments was discarded and that appropriate supporting documentation was not retained with the vouchers.

Lack of Internal Controls over Fuel

The District had a fleet of 31 vehicles; 22 heavy-duty trucks, 8 pickup trucks and an SUV. All vehicles were fueled at the District's fuel station, which houses one pump for diesel fuel and another for gasoline.

Poor Security over Fuel Pump Access

The controls instituted by the District to prevent unauthorized access to the fuel pump after the workday had ended were not effective. One master key opened the garage wash area housing a master switch for the pumps, the padlocks securing the gated entrance to the fuel site and the fuel pumps. There were approximately 16 master keys distributed to employees and there was no list of the employees who had keys; the General Sanitation Supervisor informed us that he kept a mental checklist. Thus, any of 16 employees who had possession of a master key could gain access to the fuel. There were no security cameras to identify who used the pumps and at what time.

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Questionable Fuel Records - Prior to September 17, 2008

The District did not maintain a perpetual inventory of fuel prior to September 17, 2008. We were informed that this was because the District had no need for the information, and no outside agency required or requested it. Using the records available such as fuel purchases and daily dip stick readings, we performed an analysis to estimate the fuel inventory at 6 points during the audit period. When we compared this estimated inventory to the applicable dip-stick reading on record at the district, we noted that in 4 of the 6 instances the actual inventory was less than the estimate. Such differences may be indicative of unauthorized fuel usage, poor records, or a potential environmental hazard due to leakage.

Possibility of Fuel Leakage

Beginning September 17, 2008, the District was required by the Nassau County Office of the Fire Marshal (“Fire Marshal”) to maintain a 10-Day Fuel Reconciliation Worksheet (“10-Day Worksheet”) to aid in identifying potential fuel leaks. The District did not comply with the State’s requirements for investigating excessive fuel variances. The explanations written by the District on the 10-Day Worksheet did not indicate that the possible causes for the variances were investigated. Thus, leakage factors may exist that require the DEC to be notified, the tanks to be taken out of service, an inspection or a tightness test to be performed, the cause determined and necessary repairs or replacements made. Failure to comply may expose the District to fines.

Procurement of Goods and Services

In accordance with New York State General Municipal Law, the District has established a procurement policy which required that the purchase of goods between \$3,000 and \$9,999 must have three written fax quotations or written requests for proposals. Purchases \$10,000 and above must go through the bid process.

The District circumvented this policy by considering each individual purchase, rather than the total annual expected expenditure. We found that individual purchases of under \$3,000 were made from two vendors without obtaining written quotes, whereas the total annual expenditure to the vendors were between the \$3,000 and \$9,999 thresholds. We also found that individual purchases from four vendors were under \$10,000 and the bidding process was not performed. However, the total annual expenditure was \$10,000 or over.

Competitive Bids

The District’s procurement policy states “Documentation and an explanation is required whenever a contract is awarded to other than the lowest responsible offeror. This documentation will include an explanation of how the award will achieve savings or how the offeror was not responsible.” Our review of two bids that were not awarded to the

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lowest bidder revealed that adequate documentation was not on file to justify why the lowest bidder was not selected.

Remediation of Land

District policy states that the bidding process can only be bypassed in emergency situations. Our review disclosed that the District chose the contractor who performed building improvements to remediate the rear property without going through the bidding process. We found no evidence that it was an emergency situation, as the contractor did not begin work until five months after the bid was awarded.

Vehicle Parts, Tires and Repairs

The District did not consistently document in-house repairs and as a result, we were unable to substantiate that all purchases of repair parts and tires were necessary District expenses. The District did not maintain inventory records for tires and parts purchased to be used in in-house repairs and did not monitor or track when they are used. For example, in 2006 the District was billed for repairs to twelve tires; however, the District had repair order forms for the replacement of only two tires. We noted invoices that were not accompanied by a supporting repair order form to indicate that an evaluation was done by the District prior to the repair being performed or invoices where the repair form did not indicate who performed the repairs and the description of the repairs performed did not match the invoice.

Leave Record Maintenance

Leave time was taken by the employees, but no leave request slip was always on file and employee attendance reports did not always reflect adjustments for leave time taken. Our analysis of leave balances as of the beginning of the audit period (January 1, 2006) revealed that the balances reported for vacation and sick leave for the General Sanitation Supervisor and the Senior Supervisor appeared to be excessive based upon their years of service and the number of leave days taken. Some employees' records showed more leave time accrued than it was possible for them to earn under the District's policies and labor contracts.

Manually Driven Books and Records of Account are Subject to Error

The District's accounting records were generated by the Accountant by manually entering the same data in three unlinked software applications: Quicken for check writing, Microsoft Access for paid claims and Microsoft Excel for the general ledger. A control procedure was not in place to ensure the consistency of the data across applications or that input errors were detected and corrected in a timely manner.

The District's general ledger was not properly maintained. We found that it did not:

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- contain all the accounts needed to reflect the financial position and results of operations of the District. For example, the District did not use encumbrance accounting, and as a result, it did not reflect its liability for unpaid invoices.
- carry forward the ending cash account balances for one year to the beginning balances for the next year. Cash accounts are permanent, balance sheet accounts and their balances should be carried from one period to the next. Any year-end adjustment to these balances should be reflected in the accounting records.
- contain up to date balances. For example, the balance listed for the Unappropriated Surplus (Fund Balance) as of December 31, 2008 was actually the fund balance amount as of December 31, 2006.

Accounting records were kept on Excel spreadsheets that were large, multi-column and row schedules. Excel's functionality was not being used to its full capacity nor were there written instructions for their use for anyone to use as a reference. We noted that the Accountant was the only employee who could explain how each schedule was created and/or how they interrelated.

The District's claim book represented a list of all paid claims. The claim book and check register were not reconciled to each other. We found discrepancies between the voucher amounts and the total of the related invoices entered into the claim book which resulted from data input errors. These errors hindered the reliability of the claim book as the source to review for duplicate payments.

Bank Accounts and Bank Reconciliations

The District reconciled the operating bank account balance to its check register and the payroll bank account balance to its payroll check register; but did not reconcile either bank balance to the general ledger. Such reconciliation is important to identify any errors or irregularities in the banking transactions and/or the general ledger.

Our comparison of the bank and check register balances to the general ledger revealed some differences that could not be explained by the District or were explained only after considerable time and effort on our part. The District retained no written explanations and supporting documents. We were able to determine that the differences were generally caused by incorrect postings in the general ledger and the timing of when voided checks and debit charges were recorded. We also noted operating account checks that had remained outstanding for extended periods of time varying from nine months to over two years. With respect to the payroll account, the District did not have a list of outstanding checks issued by ADP, making it impossible to determine if any payroll checks were outstanding for an excessive length of time. None of the bank reconciliations reviewed contained any evidence of a supervisory review.

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Other Findings

During the course of this audit, we noted other findings related to Legal Services, Store Credit Card Purchases and Purchases on Account, Communication Expenditures, Investment of Excess Funds in Certificates of Deposit, Inadequacies in Petty Cash Management and Fixed Assets that are detailed in this report.

The matters covered in this report have been discussed with the officials of the District during this audit. On December 3, 2009, we submitted a draft report to the District with a request for comments. The District declined our offer for an exit conference. The District's written comments, received on December 22, 2009, and our responses to those comments, are included as an appendix to this report.

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Audit Findings and Recommendations

Audit Finding (1):

Work Performed Out of Title

Certain District employees were working out of title in non-competitive positions. The actual duties performed by the employees were associated with higher competitive titles. This practice circumvents civil service job requirements and mandated testing. In addition, the salaries paid to these employees by the District were significantly higher than the salary range for the civil service title to which each employee had been assigned.

For example, the individual who performed the entire accounting function for the District (and is referred to in this report as the “Accountant”) has a civil service title of “Messenger”. The Messenger title is non-competitive and therefore, no civil service examination is required. According to civil service specifications, a “Messenger” carries messages and performs routine clerical work that requires limited judgment under direct supervision. It is a Grade 2 position and, as a Nassau County civil service employee, the salary range would be between \$21,917 and \$38,871. We determined that the duties actually performed by the Accountant align with the Accountant I title, which is a competitive title and requires a civil service examination. We also found that the Accountant did not have a Bachelor’s degree from a regionally accredited college or university, which is the training requirement for the Accountant I title. The District’s Accountant’s base salary in 2008 was \$93,662 which is significantly higher than the Nassau County salary ranges of \$21,917 - \$38,871 for the Messenger Title and \$32,494 - \$63,811 for the Accountant I. Rather, a salary of \$93,662 falls within the salary range of \$48,634 - \$96,375 for the Accountant III title in Nassau County.

This same situation applied to the District’s Secretary. Her civil service title was also “Messenger”; however, her responsibilities included keeping daily attendance records, updating leave accruals, ordering fuel, preparing the fuel report required by the Town, and assisting the Board with meeting minutes. We determined that the duties actually performed by the District’s Secretary align with the Clerk I title, which is a competitive title and requires a civil service examination. Her 2008 base salary was \$96,854.

We also found that the office worker responsible for Information Technology support, checking payroll adjustments and assisting the Accountant, was inappropriately classified as a Recycling Worker, which is a non-competitive title. We determined that the duties actually performed align with the Clerk I title. His 2008 base salary was \$88,404.

None of these employees took a civil service examination for their current positions; all were appointed by the former General Sanitation Supervisor (the father of the current General Sanitation Supervisor).

Table 1 in Audit Finding (3), Inadequate Segregation of Duties, illustrates the disparity between the responsibilities performed by these employees and their civil service titles.

Audit Recommendation:

We recommend that the District contact the Nassau County Civil Service Commission regarding these instances of working out of title and take the necessary steps to rectify the situation.

Audit Findings and Recommendations

Audit Finding (2):

Role of External Audit Firm

The District has retained Rynkar, Vail & Barrett, LLP (“outside auditor”) as its audit firm for over 20 years. Annual payments to the outside auditor were \$22,725, \$23,225 and \$28,825 for 2006, 2007 and 2008, respectively.

The American Institute of Certified Public Accountants (“AICPA”) standards provide that auditees should designate an individual who possesses suitable skill, knowledge and experience to oversee the services provided by their external audit firm.¹² The Standards state: “In cases where the client is unable or unwilling to assume these responsibilities (for example, the client does not have an individual with suitable skill, knowledge, and/or experience to oversee the non-attest services provided, or is unwilling to perform such functions due to lack of time or desire), the member’s provision of these services would impair independence.”

We reviewed District personnel and hiring information, including data detailing the education and experience of the District’s administrative and office staff. Based on this review and on our observations of the employees’ maintenance of the District’s books and records, these employees do not appear to possess the in-house skill, knowledge or experience to adequately perform the accounting functions for the District, prepare a basic draft of the audited financial statements to provide to the outside auditor, or to oversee and evaluate the adequacy and results of the services performed by the outside auditor.

During the course of the audit we requested schedules and/or other available documentation to support amounts and/or other representations in the audited financial statements. In several instances, the Accountant informed us that he had to check with the District’s outside auditor and/or obtain the documentation from the outside auditor. For example, the trial balance maintained in Microsoft Excel did not reflect the amounts reported in the audited financial statements. This was partially because the Accountant did not post the year-end adjusting entries he received from the outside auditors to the general ledger. Even after considering the impact of the year-end adjusting entries, we were still unable to fully reconcile the District’s records with the audited financial statements. When we asked the Accountant for the “mapping” of the District’s chart of accounts to the corresponding line item(s) in the audited financial statements accounts, he told us he would have to check with the outside auditor. When we followed up with the Accountant, we were informed there was no mapping. However, a mapping of general ledger accounts would be required for the outside auditor to prepare the District’s audited financial statements.

Additionally, when we first inquired about the meaning of certain notes to the audited financial statements, or requested the calculations to support the notes, the Accountant

¹² AICPA Rule 101- Independence: General Requirements for Performing Nonattest Services

Audit Findings and Recommendations

informed us he would have to check and it took several days to get a response. It did not appear that the information was readily available.

The aforementioned examples, in conjunction with the absence of a complete and reliable accounting system (see *Audit Finding (16), Manually Maintained Books and Records of Account are Subject to Error*) call into question the accounting expertise of the District's employees and the independence of its outside auditor. To exacerbate this matter, we found no evidence of any oversight of the outside auditor by the Commissioners.

Audit Recommendation:

We encourage the Commissioners to adopt a policy for rotating the outside auditor every 5 to 6 years, as many municipalities and Special Districts are now doing.

We also strongly encourage the District to hire an individual, even if only on a part-time basis, who has the necessary accounting expertise to oversee all aspects of the District's accounting functions. This would allow the outside auditor to limit its role to the outside audit function.

Audit Finding (3):

Inadequate Segregation of Duties

An effective internal control system requires the separation of duties so that no one single individual has control of or performs all phases of an accounting function. Concentrating key duties, such as cash receipts, cash disbursements, bank reconciliations, and the general ledger with one individual weakens internal controls and significantly increases the risk that errors and/or irregularities might occur and go undetected and uncorrected in a timely manner.

The District has an administrative office consisting of the General Sanitation Supervisor ("GSS"), Senior Supervisor, Accountant, Clerk and Secretary, who perform the administrative and financial functions at the District.

Audit Findings and Recommendations

The table below illustrates these employees' functional and civil service titles along with their responsibilities.

Table 1

Functional Title	Civil Service Title	District Functional Title Responsibilities
Accountant	Messenger	<ul style="list-style-type: none"> - reviews and enters invoices into Access claim book; - assigns claim voucher numbers, enters info into check writing system; - maintains cash disbursements journal in Excel; - prepares deposit tickets, maintain cash receipts journal in Excel; - posts monthly to the general ledger in Excel; - prepares adjustments to an exception based payroll (ADP); - receives weekly pay documents from ADP; - prepares bank reconciliations; - acts as primary custodian for the petty cash fund; - obtains CD rates, prepares the analysis of cash used to determine how much to invest, phones in CD instructions to one of the banks; - assists in the preparation of the budget; - acts as key liaison with outside auditor.
Clerk	Recycling Worker	<ul style="list-style-type: none"> - IT support; - checks payroll adjustments processed by ADP.
Secretary	Messenger	<ul style="list-style-type: none"> - completes daily attendance record on index cards; - updates the weekly leave accrual records; - orders fuel by phone; - updates the 10-day fuel reconciliation worksheet; - prepares monthly board package; - keeps and types meeting minutes.
Senior Supervisor	Sanitation Supervisor	<ul style="list-style-type: none"> - oversees daily sanitation operations of the District; - approves some invoices for payment; - reviews phone & radio bills.
General Sanitation Supervisor	General Sanitation Supervisor	<ul style="list-style-type: none"> - oversees general operations of the District; - opens mail; - approves vouchers for payment; - receives and reviews processed payroll from ADP.

The Office of the New York State Comptroller notes “when functions are not or cannot be separated, then a detailed supervisory review of related activities should be undertaken by managers or officials as a compensatory control.”¹³ As evident in the chart, the District has concentrated key duties such as recording cash receipts, cash disbursements, updating the general ledger, safekeeping of check stock and performing bank reconciliations with one individual, the Accountant. A supervisory review of the claim book and the general ledger to identify errors or omissions is not part of the District’s process. For example:

- a review of the truck and repair expenses disclosed that in 2006 and 2007, the claim book amount exceeded general ledger expenses by \$7,769 and \$30,790, respectively. In 2008, the general ledger amount exceeded the claim book by \$7,103. These differences were not identified by the Accountant.

¹³ Office of the New York State Comptroller, *Local Government Management Guide Internal Controls*, page 8.

Audit Findings and Recommendations

- A review of insurance expenses, election expenses, fuel, professional services, office expenses, fringe benefits, new equipment expenses, and building maintenance expenses found similar differences between the claim book and the general ledger, ranging in amount from \$11 to \$24,797; these differences were not identified by the Accountant.

Audit Recommendation:

As recommended by the Office of the New York State Comptroller, accounting related functions should be separated so that controls cannot be circumvented. The District should segregate incompatible functions, such as cash receipts, cash disbursements, bank reconciliations, and the general ledger, by identifying those functions which can be reassigned among employees. If this is not cost effective, formal supervisory reviews should be implemented as a compensating control to ensure there are adequate internal controls to minimize errors and fraudulent activities.

If the District's administrative employees are unable to assist with these duties, District officials should consider engaging the part-time assistance of an outside accountant or accounting firm.

Audit Finding (4):

Inadequate Written Policies and Procedures

Written policies and procedures are an effective internal controls tool to provide guidance, accountability and reliability of accounting data and financial reporting. Policies and procedures should be disseminated to employees to ensure their awareness and compliance with policy and that businesses operate efficiently in the event of an employee's absence from work.

The policies and procedures of an accounting entity, as defined by the Local Government Management Guide Internal Controls¹⁴, should contain details of significant activities and unique issues, employee responsibilities, limits to authority, performance standards, controls procedures, and reporting relationships.

The District has limited written guidelines and procedures, consisting of an investment policy, a procurement policy, a capitalization policy, and rules and regulations (which offers employees guidance on daily activities such as clocking-in, but primarily guides sanitation workers in the performance of their duties). Some District policies, such as the capitalization policy (EX14), exist only as brief narratives in the minutes of meetings at which they were approved or are recorded only in the notes to the audited financial statements. The District does not have the following written documentation:

- an organization plan that lists its basic authority, responsibilities and duties;
- an organization chart;

¹⁴ Office of the New York State Comptroller, *Local Government Management Guide Internal Controls*, page 4.

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- targets or goals in order to meet its objectives;
- an accounting manual covering revenues, disbursements, and maintenance of its accounting books and records;
- financial operating procedures covering the day-to-day steps that should be followed to perform key functions, including instructions about how to evidence that these steps were completed;
- a budget policy. The Office of the State Comptroller's Local Government Management Guide notes that a budget policy is necessary to ensure that sufficient fiscal oversight is provided and that the policy should set forth the board's objectives to ensure that sufficient resources are available to fund needed services.¹⁵;
- a bank reconciliation procedures manual;
- a credit card manual covering the proper use and accounting of purchases made with the District's credit card;
- a fixed asset policy covering the acquisition and disposal of fixed assets and a periodic fixed asset inventory count;
- a formal phone bill review process for its Nextel two-way radio and cell phone bill or the Verizon landline bill; and
- a petty cash policy.

Additionally, management did not have copies of pertinent laws, rules and regulations, such as the Nassau County Civil Divisions Act (L1939, ch273), which contain its general and legal operation authority.

Audit Recommendations:

The District should:

- a) develop, document and disseminate to employees, policies and day-to-day accounting procedures. These policies should be retained for reference purposes by the District employees and outside regulatory and auditing bodies. The policies should also be dated to reflect when they were established and when they were last updated; and
- b) take the necessary steps to ensure that copies of current laws, rules and regulations are on file at the District as a resource for reference and guidance as needed.

¹⁵ Office of the New York State Comptroller's Local Government Management Guide: *Fiscal Oversight Responsibilities*, (pages 6-7)

Audit Finding (5):

Lack of Board Oversight

According to the New York State Local Government Management Guide covering fiscal oversight responsibilities, “a municipality’s success depends heavily upon the actions of its governing board. As the legislative body, the board sets much of the framework within which a local government operates. Statutory provisions and sound management practices complement the board’s guidance and oversight. Through its actions, the governing board often directs and controls the day to day activities of local governments. Board members as fiscal stewards should be responsible both for setting the course for all financial activities and for seeing that the course is kept.”¹⁶

Our review of the Board’s oversight activities was performed by reading the minutes of all monthly meetings held during the audit period and reviewing the District’s policies, procedures and practices. The Board minutes included a Treasurer's Report that provided a summary of cash activity according to the District’s check register. It listed the check register balance as of the date of the prior meeting, deposit activity and interest, the total disbursements made since the last meeting and the check register balance as of the meeting date. Next, a list of payroll expenses and Certificates of Deposits (“CDs”) purchased was shown, followed by a list of the vendor payments. We noted the following deficiencies in the Treasurer’s report:

- The book balances shown on the Treasurer’s report did not always agree with the check register, and the corresponding bank account balances for the same dates were not shown. Also, bank reconciliations were not included.
- The source of the total disbursed amount was not stated anywhere and subtotals were not shown for payroll, CDs and vendor payment activity. Thus, the relationship of the total amount disbursed to the activity shown was not transparent.
- Check numbers and check dates are not shown; this data is important in order for the Board to determine that all checks were accounted for, and all check dates were within the reporting period.
- A brief description of each vendor payment was not included to provide the Board with information to assess the appropriateness of each payment and whether the type of payment is included in the budget.
- When we requested a representative Board package, we were provided only with a Board meeting template, which did not include additional financial information. We were informed that the Board was provided with budget updates periodically and when we requested a copy, we were told that the documents were not retained.
- We also noted that the Board:
 - did not perform a regular comparison of budgeted to actual revenues and expenditures;

¹⁶ Office of the New York State Comptroller, *Local Government Management Guide, Fiscal Oversight Responsibilities*, page 1.

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- did not provide guidance to establish or maintain an effective and adequate system of internal controls;
- did not include detailed descriptions of the matters discussed at the monthly Board meetings in the minutes; and
- did not spend much time on matters concerning the District's budget. For example, the September 4, 2008 Special Meeting Minutes indicated that the Board held an Executive Session meeting from 12:30 pm to 1:00pm, to discuss litigation, the sale of the District's back property, personnel and the 2009 Budget. On a motion unanimously approved at the regular meeting, which immediately followed the Executive Session, the 2009 budget was approved for submission to the Town of Hempstead. Further, the District was unable to provide us with a copy of a budget package or any other data that was used for discussion of the budget. A review of Board minutes in the 4 months prior to September did not contain any mention that the budget was reviewed.
- The Commissioners did not comply with New York State Public Officers Law¹⁷, which provides that only limited matters such as those that imperil public safety, relate to litigation or property, or to personnel, may be included in Executive Session. When we met with the Commissioners, GSS, former GSS and Accountant to discuss our preliminary findings related to evidence of budget reviews, review of budget transfers, lease buy decision making for specific vehicles, and the acquisition and disposition of certain fixed assets, we were advised that these matters were discussed at length in Executive Sessions of special meetings for which brief minutes only existed. We found that special meetings generally ranged from only 10 to 30 minutes in length. Discussion of these topics in Executive Session is not permissible under the New York State Public Officers Law.

Audit Recommendations:

The District should ensure that:

- a) check dates and numbers for each invoice approved for payment be included with the Board Minutes. This would allow the Commissioners to verify that all check numbers are accounted for and that any breaks in the sequence were explained, (i.e., if a check were voided). To ease the process and lessen the staff's effort, consideration should be given to printing the previous month's payroll and expenditure information and presenting it with the minutes, rather than typing the data into the minutes;
- b) all Commissioners sign the Board minutes to document their attendance at the meetings;
- c) the Board documents that they performed a fiscal review of the actual expenditures incurred and submitted for Board approval, the financial activity as of the last meeting, including bank account and certificate of deposit activity, and the bank reconciliations. In addition, periodic reviews of budgeted and actual

¹⁷ New York State Public Officers Law §103 & §105

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- revenues and expenditures should take place and be documented. The Board should include the financial matters reviewed by the Commissioners in sufficient detail in the minutes or agenda to evidence that they are fulfilling their oversight role. The minutes should incorporate, by reference or through attachment, the documents examined such as financial reports, bank reconciliations, bank statements, and comparative schedules of budgeted to actual expenditures and revenues; and
- d) it and its Legal Counsel obtain and review Sections 103 and 105 of New York State Public Officers Law relating to open meetings and Executive Sessions. The New York State Department of State's publication, *Conducting Public Meetings and Public Hearings (James A Coon Local Government Technical Series)*, is a resource that can be obtained at no cost and is available on-line. The District should put a policy in place to ensure that it is compliant with the law's limitations of the matters to be discussed in Executive Session.

Audit Finding (6):

Unauthorized Use of 2006 Unreserved Fund Balance

The District's budget for 2006, which was approved by the Town of Hempstead, included an appropriation of \$79,860 from its unreserved fund balance. However, in 2006, the District overspent its budget by an additional \$223,069 resulting in the use of \$302,929 of the unappropriated fund balance to cover its excess expenditures.

On an annual basis, the District must make a decision during its budget process on whether any portion of its unreserved fund balance will be used to fund the following year's activities. Pursuant to New York State Town Law¹⁸, after approval by the Board, the District submits its annual budget to the Town of Hempstead for review and approval of all expenditures except interest on bonds.,

The District also factored the additional appropriation into arriving at the adjusted budget amounts reflected in its annual report. The District's audited financial statements for 2006 stated "the original budget for the General Fund for the calendar year ended December 31, 2006 was revised by approximately \$223,082. Supplemental appropriations or authorized budget amendments were approved." However, the District was unable to provide us with evidence of the approval by the Town of Hempstead for the increased expenditures.

Unbudgeted Purchase of Sanitation Trucks

In 2006, the District obtained two sanitation trucks valued at \$348,192 (\$174,096 each) through a New York State master lease/purchase agreement. Total minimum lease

¹⁸ Section 215 [10]

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payments for the trucks as of December 31, 2008 were \$223,127 and the amount representing interest was \$18,397.

We found no written support to justify the need for two new sanitation trucks at the same time when neither purchase was included in the budget. Further, no evidence was provided by the District that a lease/buy analysis was performed to determine the best funding decision.

Preparation of the Budget

Actual results from the prior year or years did not appear to be considered when budgeting for the next year. For example, the District consistently reflected zero spending for substance abuse testing but continued to budget \$8,500 annually for this expense.

We noted that the District's line item budget misrepresented the true nature of certain expenses included in the budget. For example, the District routinely excluded the current portion of its debt service as a line item in the budget, but at year-end, a budget transfer was done by the outside auditor. This practice understates the current liabilities of the District and misrepresents the District's necessary cash flow needs. For instance, someone reviewing the budget may wrongfully conclude that the District did not carry any debt. The District also consistently misrepresented its expenses for computer services as bank expenses.

We found that the District's budget for new equipment could not be supported. The budget for new equipment in 2006, 2007 and 2008 was \$31,000, \$125,000 and \$475,000, respectively, whereas actual spending in 2006, 2007 and 2008 of \$7,075, \$48,851 and \$8,607, respectively, was significantly lower.

Budget Monitoring

The District's Accountant indicated that he performed periodic reviews of budget to actual revenues and expenditures, and that if needed, he would perform additional comparative reviews. However, he did not retain the evidence of such reviews.

Financial Reporting of Budget Transfers

Our review of the original and adjusted budgets revealed that the adjusted line item budget amounts shown in the audited financial statements did not always agree with the sum of the original line item budget amounts and the budget transfers.

Audit Recommendations:

The District should ensure that:

- a) documentation supporting the preparation of the budget, including budget decisions and justification statements, budget transfers and adjustments be promptly reflected in the District's budget records and retained for reference purposes;

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- b) periodic reviews of budgeted to actual revenues and expenditures, are performed, ideally monthly, at minimum quarterly;
- c) the Board be furnished with budget schedules noted in recommendation b) above, to enable the Commissioners to fulfill their duty of providing fiscal oversight to the District. Such documentation should be retained, and maintained with board records to document the Board's receipt and review;
- d) compliance with the Town Law is met to ensure transparency and full communication, including obtaining approval from the Town Board for any expenditures of the unappropriated fund balance that exceed original budgeted amounts; and
- e) a budget monitoring process in put in place that requires a comparison of paid expenditures to budgeted amounts to avoid excess spending.

Audit Finding (7):

Increases in Property Tax Levy/Appropriateness of Fund Balance

The Office of the New York State Comptroller conducted a study of unreserved and unappropriated fund balances in selected water, fire and sewer Districts in Nassau County for the period January 1, 1998 through December 31, 2000. The study indicated that "Recent changes in state law and prudent budgeting practices allow a "reasonable amount" of unreserved fund balance to be retained to ensure the orderly operation of the district and continued provision of services. In making the determination as to the "reasonable amount" of unreserved and unappropriated fund balance to be retained, district officials must take into account factors including, but not limited to, the size of the fund, cash flows, the certainty with which the amounts of revenues and expenditures can be estimated and the unit's experience in prior fiscal years."¹⁹

We determined that the District's unreserved fund balance of \$1,616,615 at December 31, 2008, would be considered excessive based upon the New York State Office of the Comptroller's study, since the District receives one half (6 months) of its share of real property taxes from the Town of Hempstead by the end of February each year and its unreserved fund balance as of December 31, 2008 represented the equivalent of 12 weeks (3 months) of expenses. Consequently, the tax rate increases in 2007 and 2008 may have been excessive.

¹⁹ State of New York , Office of the State Comptroller, *A Study of Unreserved and Unappropriated Fund Balances of Selected Districts in Nassau County, Report of Examination, Period Covered January 1, 1998 – December 31, 2000*, 2002 M-60, page 1

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According to the District's audited financial statements, we calculated the property tax levy increases for the audited period, as follows:

Table 2

Year	Property Tax Levy	Calculated Increase in Property Tax Levy	Calculated Percentage Increase
2006	\$6,187,111	n/a	n/a
2007	6,833,095	\$645,983	10.4%
2008	7,339,344	506,249	7.4%

n/a = not applicable

According to the District's audited financial statements, its fund balances at the close of fiscal years 2006, 2007 and 2008 were as follows:

Table 3

Year	End of Year Fund Balance	Fund Balance as a Percentage of Property Tax Levy (computed)
2006	\$1,146,811	18.5%
2007	1,373,626	20.1%
2008	1,928,345 (1)	26.3%

(1) Note: as of December 31, 2008, \$311,730 of the fund balance is reserved for the payment of compensated absences due to the GSS upon termination of his service.

Strong budget controls and periodic monitoring of actual revenues and expenditures are necessary to ensure that the District has a fund balance at year-end that is planned and includes a cushion for unforeseen expenses, but is not excessive.

Audit Recommendation:

The District should develop a formal budgetary control policy, which includes the maintenance of a sufficient fund balance to meet its operating expenses for ensuing year. This will aid in ensuring that any increases in property tax levies are necessary and justifiable.

Audit Finding (8):

Lack of Internal Controls over Cash Disbursements

Our review noted that the District's internal controls over cash disbursements were inadequate to ensure that proper and authorized payments were made. Internal controls over the voucher review and payment process are essential in determining that payments to vendors represent valid business expenses, were properly supported by the appropriate documentation, and approved in accordance with the District's policies and laws. They reduce the likelihood that errors and irregularities could occur and go undetected and ensure that resources are protected from waste, fraud and mismanagement.²⁰

The District's total cash disbursements, excluding salaries and fringe benefits, for the years ended December 31, 2006, 2007 and 2008 were \$2,564,811, \$2,775,771 and \$2,721,207, respectively. (C.1.2).

The District utilizes a Quicken "check register" to generate disbursement checks, a Microsoft Access database "claim book" to maintain its paid claims history, and Microsoft Excel for its accounting records, such as the cash disbursement journal and the general ledger.

Vendors mail claim vouchers to the District along with the supporting invoice(s) and/or other documentation. The vendor generally signs the voucher to certify its authenticity. However, in the absence of such signature, the District's Accountant signs on behalf of the vendor. The GSS opens the mail and reviews the claim vouchers before forwarding them to the Accountant for processing. The Accountant assigns the claim voucher numbers. The Accountant matches the vouchers and the supporting documentation on file at the District, such as packing slips, and reviews the Claim Book to check for duplicate invoices. The Accountant also generates an adding machine tape to verify arithmetic accuracy and attaches it to the voucher. For certain claims, the vouchers, along with the supporting documentation, may be routed to a supervisor for review and approval to pay, before being returned to the GSS for his final review and approval to prepare the checks. The vouchers and unsigned checks are presented in two separate piles to two Commissioners for their review and signature. The Commissioners evidence their review of the vouchers with their initials and then sign the stack of checks.

After claim vouchers are processed for payment and the checks are signed, detailed information for each claim voucher payment is entered into the District's monthly Excel cash disbursements journal. The vendor name, claim voucher date and amount, and check number and amount are recorded in the cash disbursements journal and each payment is coded to the general ledger expense account that is to be charged. On a monthly basis, the total checks/expenditures paid per the cash disbursements journal are posted to the general ledger by account (i.e., building maintenance expense, office expense).

²⁰ As recommended by the Local Government Management Guide Internal Controls issued by the Office of the New York State Comptroller, *Local Government Management Guide Internal Controls*, page 1 & 2, http://www.osc.state.ny.us/localgov/pubs/lgmg/internal_controls_nc.pdf.

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In the Accountant's absence, invoices that require immediate payment will be processed manually by one of the administrative staff. In these instances, the review for duplicate invoices is not performed before payments are made. The necessary entries in the check register, claim book and cash disbursements journal will not be done until the Accountant returns.

Our audit identified the following internal control weaknesses:

- Claim voucher numbers are reused from year to year; therefore there is no way to distinguish to which year a claim pertains. Further, a process is not in place to ensure that the next available claim number is assigned or to account for the claim number sequence.
- The GSS does not initial or date his review of the claims received in the mail nor is the date of receipt evidenced.
- The Accountant does not initial or date the vouchers and supporting documentation, to evidence the comparison to packing slips or that he checked for duplicate invoices.
- The practice of the Accountant certifying a claim voucher on behalf of the vendor does not provide the external certification as intended.
- The Supervisor and GSS do not have any consistent or designated space on the voucher to evidence their respective review. The initials that do appear are not legible or dated.
- The practice of signing a stack of checks when the support is in a separate pile may lead to errors or irregularities between the checks and the vouchers that would not be immediately detected and corrected. Once this weakness was brought to the attention of the GSS and the Accountant, the District stated it would immediately begin presenting the Commissioners with the checks attached to the claim vouchers.
- Paid claim vouchers and invoices are not marked or stamped "paid", to indicate completion of the payment process and help avoid duplication of payment.

We reviewed 106 claim packages paid between 2006 and 2008, totaling \$694,314, and representing 8.6 % of total disbursements. C.1.1.

2006 - 32 claims totaling \$ 245,874 representing 9.6 % of 2006 disbursements

2007 - 35 claims totaling \$ 209,609 representing 7.6%, of 2007 disbursements

2008 - 39 claims totaling \$ 238,831 representing 8.5% of 2008 disbursements

The purpose of our review was to determine that payments to the vendors represented valid business expenses, which were properly reviewed and accompanied by formal supporting documentation at the time the payments were approved for payment by the GSS. Our review revealed the following:

- 77 claim voucher packages (totaling \$518,138) paid during the audit period lacked the "approved for payment" stamp or initials or other evidence that the claim was reviewed and approved by the GSS before the check was generated.

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- Two instances where the voucher amount did not agree with the check amount. Further analysis revealed that the check amounts agreed with the amount of the prior month's bill, resulting in overpayments totaling \$309. There was no control in place to ensure that the check was generated in Quicken for the correct amount. These errors went unnoticed until they were noted by the vendors, who credited the District's accounts for the excess payments. (Item X-1) (Item 2)
- One claim voucher where the check was higher than the voucher amount by \$220.36; further review of the supporting documentation revealed that the lower amount was supported and there was no indication why the check was written for more.
- Two claims for Home Depot charges where the appropriate supporting documentation was missing. In one instance, the voucher, totaling \$873.40, was prepared prior to receipt of the monthly invoice, based on a credit card receipt. In the other case, the receipt for one of the charges totaling \$31.94 was missing.
- Between November 2006 and March 2007, the District was being charged a rate higher than the contracted New York State rate that the Town of Hempstead ("TOH") had with the supplier for gas purchases. The Accountant was not aware of the error until a credit adjustment for \$750 was received from the supplier.
- 5 claims for professional services, without including the supporting documentation with the voucher package, were approved for payment by the GSS. Two of the 5 claims totaling \$14,225 were for auditing services where we eventually were able to determine their appropriateness once the District supplied the engagement letter. The other 3 claims totaling \$4,560 were for legal services where the District could not provide a retainer or other documentation to determine the legitimacy of the expenses.
- A petty cash voucher was missing one reimbursement receipt.

In each of the cases listed above, we noted that the Commissioners still signed both the vouchers and the checks.

Audit Recommendations:

The District should:

- a) develop formal cash disbursement procedures to ensure that adequate internal controls are in place and to provide guidance to District employees. These procedures should:
 - i. State the roles and responsibilities of each employee and supervisor involved in the process; and
- b) ensure that the procedures adequately cover the following:
 - i. Supporting documents such as bills and invoices reviewed during the payment process should be retained and attached to the voucher to provide an audit trail;

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- ii. The checks should be attached to each related claim voucher to facilitate the review process and guard against incorrect payments;
- iii. Claim vouchers should be pre-numbered or numbers should be assigned sequentially electronically and claim vouchers should be accounted for;
- iv. Paid claim vouchers, bills, invoices and receipts should be stamped paid;
- v. Claim vouchers, invoices and bills should be legibly signed and dated by the Commissioners and supervisors reviewing the documents. The reviewer's signature should be appended to the document itself, at a designated spot, not to an easily detached adding machine tape; and
- vi. Evidence of the Accountant's review of invoices for possible duplicate billing should be retained, not discarded, and filed with the related claim vouchers and invoices.

Audit Finding (9):

Lack of Internal Controls over Fuel

The District purchases its fuel from Sprague Energy Corp, under a Town of Hempstead contract, which allows the District to pay the same rate for fuel as the Town. The District purchased approximately \$391,762 in fuel during the period January 1, 2006 through December 31, 2008.

The District has a fleet of 31 vehicles; 22 heavy duty trucks, 8 pickup trucks and an SUV. All vehicles are fueled at the District's fuel station, which houses two pumps, one for diesel fuel and the other for gasoline. Vehicles are fueled at the end of the work day. Each vehicle has its own truck card and each driver fills up his vehicle and enters the amount used on the fuel card. The card is given to the Secretary at the end of each day and she enters the gallons used by truck in a manual log (maintained on 7 column journal paper) and sums the daily use.

Daily fuel tank dip-stick readings are done each morning and evening to determine when fuel deliveries should be made. The fuel tank holds 4,000 gallons and the fuel reorder point is 1,000 gallons. At the time of delivery, the fuel delivery driver enters the dip-stick reading just prior to filling the tank, records the gallons delivered and enters another dip-stick reading after the fuel is delivered. This ticket is then given to the Accountant for use when the invoice arrives.

Beginning September 17, 2008, the District was required by the Nassau County Office of the Fire Marshal (Fire Marshal) to maintain a 10-Day Fuel Reconciliation Worksheet ("10-Day Worksheet") to aid in identifying potential fuel leaks. This 10-Day Worksheet shows the tank volume at the start of the day (in gallons), gallons delivered, and a computation of the tank volume at the end of day (in gallons). This computed amount is compared to the end of day dip-stick reading, converted to gallons, and any variances are shown. The allowable 10-day variance for the District, based on the 4,000 gallon size of

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its diesel fuel tank, is 30 gallons. In accordance with New York State law²¹ if the variance is greater than the allowable amount, an investigation into the cause must be launched. If the cause of the variance cannot be explained, the District must notify the New York State Department of Environmental Conservation and take the tank out of service until an inspection is performed and any needed repairs or replacements are made.

Poor Security over Fuel Pump Access

Fuel pumps are powered by a switch located inside the garage vehicle wash area. At the end of each work day one of the supervisors will lock the pumps and the gate entrance to the fuel site with a padlock.

Our review revealed that the controls instituted by the District to prevent unauthorized access to the fuel pump after the work day has ended are not effective. This is because one master key opens the garage wash area and the padlocks, which secure the pumps and the gated entrance to the fuel site. There are approximately 16 master keys distributed to employees of the District. There is no list of the employees who have keys; the GSS informed us that he keeps a mental check list. Thus, any employee who has possession of a master key can gain access to the fuel pumps. There are no security cameras to identify who used the pumps and at what time.

Questionable Fuel Records

The District did not maintain a record of its fuel inventory (as measured by dip-stick readings) prior to September 17, 2008. We were informed that this was because the District had no need for the information, and no outside agency required or requested it. Therefore, in order to determine that fuel usage was properly accounted for between January 2006 and September 17, 2008, we performed an analysis to estimate the fuel inventory using the records available. We then compared this result to the dip-stick measurements entered on the fuel delivery ticket by the driver. Differences may be indicative of unauthorized fuel usage, poor records, or a potential environmental hazard due to leakage.

We selected six fuel cycles for this analysis; each fuel cycle is defined as the period of time between deliveries. We determined a starting point for our analysis using the dip-stick reading immediately after a fuel delivery from the delivery ticket and converted it to gallons using the District's fuel conversion table. We then summed the daily fuel usage to the next fuel delivery, as recorded by the Secretary, and deducted this amount from our starting point. The result was our estimate of the gallons that should have been in the tank just prior to the next delivery. When we compared this estimated inventory in gallons to the dip-stick reading taken by the delivery truck driver just prior to the next delivery, we noted that in 4 of the 6 cycles, the actual inventory was less than we estimated.

We also reviewed the 12 fuel purchases made during these six fuel cycles in our sample, to determine if the District actually received the gallons purported to have been delivered on the delivery ticket. The dip-stick readings recorded on the ticket before and after the delivery were converted to gallons and the amount delivered in gallons was added to the

²¹ 6 NYCRR Part 613.4 (d) and 613.9(a)

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gallons prior to delivery. For 8 of the 12 purchases, the gallons in the tank per the dip-stick reading on the ticket immediately after the fuel delivery, was less than what we expected based on our computations. As a result, we could not conclude that the District actually received the gallons billed.

Possibility of Fuel Leakage – 10-Day Fuel Reconciliation Worksheet

Our review revealed that the District did not comply with the State’s requirements for investigating excessive fuel variances shown on the 10-Day Worksheet.

We examined nine 10-Day Worksheets and found five instances where variances were greater than the tolerable amount of 30 gallons. In all five instances, the explanation written by the District on the worksheet did not indicate that the all possible causes for the variances were investigated. Thus, there was an increased risk that leakage factors may have existed, thus requiring that the NYS Department of Environmental Conservation be notified [according to 6 NYCRR Part 613.4(d)], and the tanks be taken out of service until an inspection or a tightness test was performed, the cause was determined and necessary repairs or replacements were made. Failure to comply with 6 NYCRR Part 613.4(d) may also expose the District to fines.

We examined 33 days of fuel inventory records kept on or after September 17, 2008, the date when the District implemented the use of the 10-Day Inventory Reconciliation Worksheets, to determine if the data recorded in the worksheets agreed with the source information. Our review revealed that for 3 of the 33 days, there were transcription errors which were not detected. Had a supervisory review of the accuracy of the 10-Day Worksheet been performed, these errors would have been detected. We were able to determine that in these 3 cases, the errors did not adversely impact the tolerable variance for each of these three 10-day periods.

Audit Recommendations:

The District should:

- a) take the necessary steps to change the pump key and limit key distribution to the least number of people possible. One master key could still be retained in a secure location in the case of emergencies;
- b) follow up on the intolerable variances on the 10-Day Worksheets, identified in this audit report, by investigating all possible causes and ruling out leakage. Going forward, the District should take the necessary steps to ensure that the 10-Day Worksheets are formally reviewed for accuracy and that any intolerable variances at the end of the 10-day period are thoroughly investigated, resolved, and documented on the worksheet;
- c) the dip-stick readings on the fuel delivery tickets should be reconciled to the number of gallons delivered and differences should be investigated and explained on a timely basis.

Audit Finding (10):

Procurement of Goods and Services

In accordance with New York State General Municipal Law (“GML”) the District has established a procurement policy, which is reviewed and approved by the Board on an annual basis, and ratified at their annual June reorganization meeting. It requires that the purchase of goods between \$3,000 and \$9,999 must have three written fax quotations or written requests for proposals. Purchases \$10,000 and above must go through the bid process. The District indicated that it determines whether there is a need to obtain quotes or follow the competitive bid process, based on the amount of the individual purchase, rather than of the total annual expected expenditure, thereby circumventing the intention of GML.

Our review disclosed that individual purchases from two vendors, made without obtaining written quotes, were under \$3,000 but the total annual expenditure to the vendors were between the \$3,000 and \$9,999 thresholds.

We also found that individual purchases from four vendors during the audit period were under \$10,000, but the total annual expenditure was \$10,000 or over. For example, the District’s payments to LI Sanitation Equipment for truck parts and repairs in 2006, 2007 and 2008, were \$47,475, \$63,123 and \$26,219, respectively. The bidding process was not performed.

Competitive Bids

The District’s procurement policy states that “Documentation and an explanation is required whenever a contract is awarded to other than the lowest responsible offeror. This documentation will include an explanation of how the award will achieve savings or how the offeror was not responsible.”

A test of two of the six competitive bids that took place during the period January 1, 2006 through December 31, 2008, indicated that in each case, the lowest bidder was not selected. One bid was for uniforms and the other was for recyclables. We found no documentation or analysis on file to explain why the lowest bidder was not selected.

Employee Uniforms Bid

There were four bidders that submitted bids for employee uniforms in 2007; the winning bidder offered the 3rd highest bid for providing and laundering uniforms. The District's Legal Counsel advised the Commissioners at the June 2007 Board meeting that of the four bidders, the winning bidder was the only vendor to "fully comply with the bid specifications". However, there was no evidence in the bid file or in the Board minutes to explain or support his analysis or conclusion.

Recyclable Products Bid

For the 2008 recyclable products bid opening, the rates were not quoted in the same unit of measure. Instead the quotes were stated per ton, per load and/or per haul. We found no evidence that a comparative analysis was performed prior to selecting the winning bid. Further, the winning bidder was one of two bidders who quoted the same rate, but there

Audit Findings and Recommendations

was no evidence why one was chosen over another. As a result, we were unable to ascertain why the winning bidder was chosen.

Remediation of Land

District policy states that the bidding process can only be bypassed in emergency situations. Our review disclosed that at the June 19, 2008 Board meeting, building improvements to remediate the rear property behind the garage in order to rid the area of water and prevent potential health hazards, were authorized by the Board. In September 2008, the GSS provided a verbal quote of \$30,000 to the Board. Further review revealed that Cibellas Contracting started the work on November 20, 2008, without going through the bidding process. We were provided with two proposals from Cibellas Contracting; one was dated November 16, 2008 for \$64,925 and the other was dated December 2, 2008, for additional work costing \$9,261. It was not readily apparent that the additional work was much different than what was stated in the first proposal. We also found no evidence that the Commissioners were advised that the written quote of \$64,925 was more than twice the verbal quote, or of the additional work of \$9,261.

Audit Recommendations:

The District should:

- a) comply with its Procurement Policy by documenting and explaining the circumstances in each instance where a contract is awarded to a vendor other than the lowest responsible bidder;
- b) perform an analysis to equate bids received in different measurements, before making the final selection;
- c) ensure that the written explanation for the selection of a vendor, other than the lowest responsible bidder, be placed and retained in the "bid file"; and
- d) perform analyses to establish the need and timing of major purchases, including the most practical funding decision, to ensure fiscally prudent decision making.

Audit Finding (11):

Legal Services

During the audit period, the District employed the services of Jerome Cline as its Legal Counsel at a cost of \$52,564. We found no evidence that a contract or retainer agreement existed with its Legal Counsel and the invoices did not contain a description of the services provided.

Audit Recommendations

The District should:

- a) formally document the arrangement with its Legal Counsel, including the annual retainer amount and the cost of services not included in the retainer which are billed separately; and
- b) require that its Legal Counsel submit invoices and bills which detail the services rendered.

Audit Finding (12):

Store Credit Card Purchases and Purchases on Account

The District has credit card accounts with Home Depot and Staples, with credit limits of \$10,400 and \$5,000, respectively. It also has a line of credit account with Ace Hardware (no credit card) with a \$5,000 limit. These accounts are used for the purchase of office supplies and office equipment (Staples) and for building maintenance supplies (Home Depot and Ace Hardware). A preprinted shopping list identifying the supplies needed is prepared and approved by the GSS before an employee, generally the Building Manager, goes shopping. While the District has only one account per store, we were informed that more than one credit card for each store existed and they are kept in a locked cabinet at the District.

During the audit period of January 1, 2006 through December 31, 2008, a review of the District's claim book indicated that \$58,921 was paid for credit card purchases/purchases on account as follows:

- Home Depot: \$38,930
- Staples: \$16,761
- Ace Hardware: \$3,230

Our review disclosed that the District does not maintain a control log to document when and by whom a credit card was taken from, and returned to, the locked cabinet. In

Audit Findings and Recommendations

addition, shopping lists that evidence the items and quantities approved for purchase by the GSS are not retained. We also noted an instance where the District was charged a \$25 late fee.

Audit Recommendations:

The District should:

- a) improve security over its credit cards and ensure that a record of their use is retained so that the whereabouts of the cards are known and recorded at all times. The shopping lists which serve as the authorization for the purchases should also be retained; and
- b) pay the credit card bills on time to avoid late fees and charges.

Audit Finding (13):

Vehicle Parts, Tires and Repairs

Our review disclosed that the District does not consistently document in-house repairs and as a result, we were unable to substantiate that all purchases of repair parts and tires were necessary District expenses. Expenditures for vehicle parts, tires and repairs for the audit period totaled \$428,169.

We reviewed 19 claim vouchers for vehicle repairs and tire and vehicle parts, totaling \$61,872, and noted the following exceptions:

- In 2006, the District was billed \$2,467 for repairs to twelve tires; however the District had repair order forms for the replacement of only two tires.
- Fifteen of the nineteen invoices examined, totaling \$50,285, had no supporting repair order form completed by a mechanic or truck driver to indicate any evaluation or decision by the District prior to the repair.
- Two repair order forms provided to support invoices totaling \$7,589 were incomplete. One form did not indicate who performed the repairs and the description of the repairs made did not match the invoice. The second repair order form was not updated to include additional work billed for installing a vehicle radiator.

The District does not maintain inventory records for tires and parts purchased to be used in in-house repairs and does not monitor or track when they are used. In addition, repair order forms are not filed with related vendor invoices, which resulted in District managers having to perform an extensive search to provide us with the repair orders that supported the bills and invoices we selected for testing.

Audit Findings and Recommendations

Audit Recommendations:

The District should:

- a) document all repairs and related vehicle part and tire purchases on the repair order forms and have the forms signed by the person who authorized the repairs;
- b) forward copies of the repair order forms to the Accountant and attach the invoices to enable supervisory review as part of the District's payment review and approval process; and
- c) ensure that purchases for the District's tire and vehicle parts inventory be supported by repairs order forms to evidence the need to restock or replenish these items.

Audit Finding (14):

Communication Expenditures

The District's land-line telephone service is provided by Verizon. Its internet service is provided by Cablevision. The District also has a Nextel account for its 29 two-way radios and two cell phones. The two-way radios allow the supervisors to keep in contact with sanitation workers during their routes. The cell phones are issued to the GSS and the Sanitation Supervisor.

Communication expenditures during the 3 year audit period totaled \$44,179 as follows:

Nextel	\$ 28,463
Verizon	\$ 13,558
Cablevision Optimum Online	\$ 2,158

We selected 9 Verizon and 6 Nextel claim vouchers totaling \$7,209 for testing and noted the following exceptions:

Verizon

- The District pays a base monthly fee of \$208 and \$77 for its land line and fax line, respectively. Local land line calls outside the local area and directory assistance (*69) calls are additional charges. In 2008, the total landline expense was \$2,923, which included base charges of \$2,495, Nassau County surcharges of approximately \$30 and additional charges of \$398 for local and directory assistance. We believe the cost of landline and fax service appears unnecessarily expensive when compared with the services being provided by Verizon and services available from other providers such as Cablevision.
- Several calls classified as night calls on the landline appeared on the Verizon invoices. The District's normal business hours are 8:30AM to 4:30PM.

Audit Findings and Recommendations

Nextel Two-Way Radios

- The District was charged text messaging fees for radio phones that had been deactivated for such operations. When we brought this exception to the attention of District senior staff, they advised that the District would take immediate action to correct the situation and obtain a credit for the charges.

Audit Recommendations:

The District should:

- a) consider competitively procuring communication services to ensure that it is getting the best rates for the services rendered; and
- b) ensure that all incorrectly charged radio phone text messaging fees have been identified, reported to Nextel, and properly credited.

Audit Finding (15):

Leave Record Maintenance

The District maintains leave records for its employees, including a daily attendance sheet, an annual employee attendance record, and a Microsoft Excel attendance report that tracks each employee's leave accruals and usages. The Excel attendance report lists the days worked, holidays, and leave time taken for each pay period for each employee. Employees complete leave request slips and have them approved by a supervisor prior to taking leave. This allows management to ensure that employees have accumulated the time requested, and assists with the updating of the employees' leave balances. Employees do not receive a periodic, formal letter or notification of their accumulated leave balances, thus, time and leave posting errors may go unnoticed and uncorrected. This is contrary to Article VII, Section D of the International Brotherhood of Teamsters ("IBT") Local 854 collective bargaining agreement²², which provides for the District to notify each employee at the end of each calendar year of the status of their accrued sick days and compensatory time; the Civil Service Employees Association ("CSEA") Local 880 bargaining agreement does not have this same provision.

We examined payroll and related time and leave records for 12 administrative, supervisory and operational employees for 18 pay periods in 2006, 2007 and 2008 (6 pay periods per year). Total gross salaries paid for the 18 pay periods selected was \$1,453,537. We noted the following exceptions:

- 34 instances where leave time was taken by the employees, but no leave request slip was on file. 10 instances were noted in 2006, 9 instances in 2007 and 15 instances in 2008. Completion of the request slips provides a control to ensure that the leave time taken is posted to the leave record.

²² This collective bargaining agreement covers the sanitation workers. The administrative and office staff are covered under the CSEA bargaining unit.

Audit Findings and Recommendations

- We noted two instances where employee attendance reports did not reflect adjustments for leave time taken:
 - The Secretary's attendance report for the pay period ending December 29, 2007, did not record the number of days worked, and no adjustment was made to any of her leave balances. The employee was paid for 5 days. We were not able to verify whether the employee worked or not, due to the absence of a daily record of hours worked for administrative employees.
 - A review of the Clerk's attendance report for the pay period ending January 5, 2008 indicated that a vacation day used on December 31, 2007 was not adjusted from the employee's accrued leave balance.

To determine the reasonableness of the beginning sick and vacation leave balances reported in the District's Attendance Records as of the beginning of the audit period (January 1, 2006), we reviewed the vacation leave balances for 15 CSEA Local 880 employees and sick leave balances for 28 (15 CSEA and 13 IBT) employees; IBT Local 854 employees do not accumulate vacation days. Based upon the leave entitlements provided in the CSEA Local 880 and IBT Local 854 contracts, our test revealed that the beginning balances reported for vacation and sick leave for some District employees did not appear to be reasonable based upon their years of service and the number of leave days taken. Specifically we found the following:

Vacation Leave

The vacation leave balance for two employees indicated that less than an average of 1 day leave was taken since employed by the District. For example:

- The GSS' opening balance of 196 vacation days appeared excessive. During his 8 years of employment, he would have been entitled to a maximum of 200 vacation days (8 years multiplied by 25 days per year²³). However, as of January 1, 2006, he has an accrued balance of 196 days; this implies that he used only 4 vacation days during his 8 years employed at the District. In comparison, according to the District's Attendance Reports, the GSS used 12 vacation days during the audit period of January 1, 2006 through December 31, 2008.
- The Senior Supervisor had an opening balance of 118.5 vacation days. During his 10 years of employment with the District, he would have been entitled to a maximum of 125 vacation days (10 years multiplied by 13 days per year, less the first year of employment, which entitled him to only 8 days). As of January 1, 2006, his accrued vacation leave balance was only 6.5 days less than the maximum calculated. According to the District's Attendance Reports, the Senior Supervisor used 40 vacation days during the audit period of January 1, 2006 through December 31, 2008.

Sick Leave

The sick leave balances for four employees indicated excessive sick leave accruals. These excessive days were calculated assuming that the employees' accrued the maximum 13 days annually, as allowed under their collective bargaining agreement, and

²³ The District's Board approved 25 days per year (5 weeks vacation) for the GSS upon his hiring. This is higher than the number of vacation allowed per the CSEA Local 880 contract.

Audit Findings and Recommendations

used no sick days since being employed at the District. In each example noted below, the accrual balance as of January 1, 2006, was higher than was possible based upon each employee's length of service and annual entitlement.

- The GSS' sick leave balance as of January 1, 2006, was 140.5 days. His maximum sick leave accrual, calculated as 13 days per year for 8 years, was 102 days.²⁴ Therefore, his accrual balance as of January 1, 2006 reported an excess of 38.50 days.
- The Senior Supervisor's sick leave balance as of January 1, 2006 was 133.5. His maximum sick leave accrual, calculated as 13 days per year for 10 years, was 125 days. Therefore, his accrual balance had an excess of 8.5 days as of January 1, 2006.
- The Maintenance Helper's sick leave balance as of January 1, 2006 was 65.58 days; his maximum accrual totaled 57 days, representing an excess accrual of 8.58 days.
- One sanitation supervisor's sick leave balance as of January 1, 2006 was 146.06 days, although his maximum accrual computed to 125 days, representing an excess accrual of 21.06 days.

Audit Recommendations:

The District should:

- a) periodically notify its employees of their accumulated leave balances in writing, to ensure compliance with the IBT Local 854 agreement. While there is not a similar provision in the CSEA Local 880 contract, notification of all employees provides a control to ensure that errors and exceptions are noted and corrected in a timely manner;
- b) ensure that leave request slips are completed by employees and approved by a supervisor prior to granting and paying for leave taken;
- c) ensure that attendance reports are corrected for the exceptions noted for the two employees whose usage of time was not reflected in the attendance reports; and
- d) investigate the excess leave accruals cited. Appropriate adjustments should be made to the employees' records.

The Board should consider implementing a requirement for District employees to take a minimum of 5 consecutive vacation days per year. Such a policy enhances internal control.

²⁴ His first year's entitlement was not a full 13 days as he was not employed by the District for the entire year. His vacation accrual of 5 weeks was not adjusted for the partial year.

Audit Finding (16):

Manually Maintained Books and Records of Account are Subject to Error

During the audit period of January 1, 2006 through December 31, 2008, the District's accounting records were generated by the Accountant by manually entering the same data in three unlinked software applications. A control procedure was not in place to ensure the consistency of the data across applications or that input errors were detected and corrected in a timely manner. The three software applications were Quicken, Microsoft Access and Microsoft Excel. The flow of the data was as follows:

- Claim vouchers were entered into Quicken to generate checks.
- Paid invoices and claim vouchers were entered into Access to update the paid claim history.
- The checks were entered into an Excel spreadsheet to update monthly cash disbursements journals.
- Deposit slips were entered into an Excel spreadsheet to update monthly cash receipts journals.
- Pay-period totals from the ADP reports were manually entered into Excel cash disbursement journals.
- Monthly totals from Excel cash receipts and disbursement journals were manually entered into another Microsoft Excel spreadsheet to update the general ledger.

A general ledger is defined as “a record containing the accounts needed to reflect the financial position and the results of operations of a government/entity. In double entry bookkeeping, the debits and credits in the general ledger are equal.”²⁵

The District's Excel general ledger is not a complete, balancing set of books containing all the accounts needed to reflect the financial position and results of operation of the District. For example, the District does not use encumbrance accounting, and as a result, it does not reflect its liability for unpaid invoices. Instead, the outside auditor determines the payable at year-end for financial reporting purposes.

The following inadequacies were also noted:

- The Excel spreadsheets were large, multi-column and row schedules and Excel functionality was not being used to its full capacity. The monthly Excel cash receipts and cash disbursement schedules and the Excel general ledger were not linked. Only one employee, the Accountant, was responsible for updating the records. His work was not subject to regular supervisory review. Further, the Accountant was the only employee who can explain how each schedule was created and/or how they interrelate. There were no written instructions for anyone to use as a reference. This increased the risk that errors or irregularities could exist and go undetected.

²⁵ Office of the New York State Comptroller's Accounting and Reporting Manual (page 193)

Audit Findings and Recommendations

- Ending general ledger account balances for one year did not always agree with beginning balances for the next year. For example, the Bank of America (formerly Fleet Bank) cash account balance as of December 31, 2006 of \$404,615 per the 2006 general ledger was \$291 more than the January 1, 2007 balance recorded in the 2007 general ledger of \$404,324. Cash accounts are permanent, balance sheet accounts and their balances should be carried from one period to the next. Any year-end adjustment to these balances should be reflected in the accounting records.
- The balances listed in the annual general ledger workbooks were not up-to-date. For example, the balance listed for the Unappropriated Surplus (Fund Balance) as of December 31, 2008 was actually the fund balance amount as of December 31, 2006. As a result, the trial balance did not agree with the audited financial statements.

The Excel general ledger is maintained on a modified accrual basis, while the Access claim book is kept on a cash basis; this may lead to timing differences and reporting errors if accrual, reversing and adjusting entries are not posted or are posted incorrectly. For example, a \$561 invoice received from Accurate Fire Equipment on December 29, 2006 was paid by the District on January 10, 2007. The disbursement was properly included in the accounts payable amount recorded as of December 31, 2006 in the District's audited financial statements. However, we found no evidence that the reversing entry was posted in 2007 and as a result, the expense may also have been recorded in the 2007 general ledger.

Inconsistencies in the Access Claim Book

The District's claim book represents all paid claims. The Accountant refers to the claim book to ensure that an invoice submitted for payment was not previously paid. Our review disclosed that reconciliation between the claim book and cash disbursements is not performed. We found discrepancies between the voucher amounts and the total of the related invoices entered into Access. Further analysis indicated that the differences resulted from data input errors, where either invoices paid on the voucher were not listed in the claim book or where an incorrect amount for an invoice or claim voucher was listed. These inaccuracies hinder the reliability of the claim book as the source to review to check for duplicate payments. Further, had a comparison between the claim book and the cash disbursements book been performed and had a supervisory review been done, these errors would have been detected.

Audit Recommendation:

The District should:

- a) upgrade its accounting software technology to be more integrated so that data has to be entered once and then automatically flows to the appropriate journals and general ledger accounts;
- b) take the necessary steps to record its liabilities in the general ledger on a monthly basis, at a minimum; and

Audit Findings and Recommendations

- c) ensure that the Accountant's work be subject to a timely supervisory review and such review should be evidenced by the supervisor's signature and date.

Audit Finding (17)

Bank Accounts and Bank Reconciliations

The District maintains an operating bank account at the Bank of America and a payroll bank account at Chase Bank. The District's Accountant performs monthly bank reconciliations of these accounts in Quicken and maintains a Quicken check register for each account. We were advised that the bank reconciliations are not subject to review by the GSS or Senior Supervisor. Cancelled and/or imaged checks are provided to the District for its operating bank account and for payroll related payments made by the District. All employee payroll checks are drawn on an account maintained by the District's payroll service provider, ADP, pursuant to a 1994 agreement. Many District employees have opted for direct deposit of their pay checks. The direct deposits and net check amounts are recorded in Quicken by the Accountant and a corresponding amount is transferred from the District's payroll bank account to the account maintained by ADP.

The bank reconciliation is performed using the Quicken software and does not incorporate the Excel general ledger. The Accountant enters the payroll checking account balance per the bank statement and the Quicken software, and compares it to the corresponding Quicken check register balance and identifies reconciling items. All cleared items per the bank statement are checked off as cleared in Quicken as part of the reconciliation and whatever remains are the outstanding items which will be used as part of the next month's bank reconciliation. Quicken reports are generated, printed and retained with the bank statement.

Operating Bank Account

The District does not reconcile the operating bank account balance or the Quicken operating account check register balance to its Excel general ledger. This increases the likelihood that errors or irregularities in the banking transactions and/or the general ledger may not be detected and properly corrected in a timely manner.

Our comparison of the bank and Quicken balances to the Excel general ledger revealed differences for six of the nine months in our sample. No written explanations and supporting documents were kept to support the differences. The District did not retain a copy of the original check register with the bank reconciliation, and there was no supporting explanation in subsequent bank reconciliations or in the supporting books and records to provide an audit trail for these adjustments. In one instance, we noted that a year-end adjusting entry was prepared by the District's outside auditor to support the audited financial statements; however, the Accountant did not properly post the adjustment. Instead of posting the adjustment in the month of December, the Accountant inappropriately adjusted the opening operating account general ledger account balance for the next year. We were able to determine that the differences noted were generally caused by incorrect postings in the general ledger (G/L) and the timing of when voided checks were recorded.

Audit Findings and Recommendations

- Seven checks totaling \$1,615 were outstanding for extended periods of time varying from 9 months to over 2 years. Four of the checks represented allowance payments to employees and three were checks listed as being voided in the Quicken check register.
- Two operating account checks, numbers 20671 and 22102, could not be located or accounted for in the supporting documentation for the bank reconciliations, including the Quicken check register and Excel cash disbursement schedules.

Payroll Bank Account

We examined three bank reconciliations for each year of the audit period for the payroll bank account and noted the following exceptions:

- The District did not reconcile the payroll bank account balance or the Quicken payroll check register balance to the Excel general ledger. This increased the likelihood that errors or irregularities in the banking transactions and/or the general ledger may not have been detected and properly corrected in a timely manner.

We compared the bank and Quicken balances to the Excel general ledger and noted differences for four of the nine months in our sample. As with the operating account, no written explanations or supporting documents were retained by the Accountant. We found that the differences were generally caused by incorrect postings in the G/L, and timing differences in connection with recording voided checks and debit charges, such as the monthly ADP service charge. A year-end adjusting entry, prepared by the District's outside auditor to support the audited financial statements was not posted properly to the G/L by the District's Accountant. Instead of posting the adjustment in the December year-end G/L, the Accountant changed the opening payroll account balance as of January 1st of the following year.

- The reconciliation does not include a verification of cancelled checks because the checks were drawn on an account maintained by ADP. The District did not have a list of outstanding checks issued by ADP, making it impossible to determine if any payroll checks were outstanding for an excessive length of time. When this exception was discussed with the District's Accountant, he contacted ADP to obtain a list of outstanding checks.

None of the bank reconciliations reviewed contained any evidence of a supervisory review.

Audit Recommendations:

The District should:

- a) ensure that someone other than preparer review all bank reconciliations to ensure they are performed accurately and that differences are identified, investigated and resolved in a timely manner. The preparer and reviewer should both sign and date the bank reconciliation;
- b) ensure that the Accountant reconciles the bank balance in each account to the corresponding Quicken check register and general ledger account each month. A

Audit Findings and Recommendations

copy of the check register should be retained at the time of the reconciliation, in order to provide an audit trail, especially if there are subsequent adjustments, such as the voiding of missing and stale dated checks. To improve the audit trail and provide transparency, adjustments to the general ledger or check register should not be back dated. Instead they should be recorded in the current period and documented in the current bank reconciliation;

- c) going forward, obtain and review a list of the outstanding checks from ADP on a monthly basis; and.
- d) implement policies and procedures to resolve stale dated checks that are over six months old.

Audit Finding (18):

Investment of Excess Funds in Certificates of Deposit

The District's investment policy states: "It is the policy of the Oceanside Sanitary District No. 7 to diversify its deposits and investments by financial institution, by investment instrument and by maturity scheduling." One Commissioner, who acts as the Secretary/Treasurer, and the Accountant, are responsible for investing any excess monies in short-term investments and obtaining the best possible rates offered.

The District opened 21 certificates of deposit, during the period January 1, 2006 through December 31, 2008. Terms of the certificates of deposit varied from approximately one month to one year. At the close of each fiscal year, certificate of deposit balances were:

- December 31, 2006: \$ -0-
- December 31, 2007: \$250,000
- December 31, 2008: \$811,730

The District does business with only two banks, the Bank of America and Chase Bank and we found no evidence that the District tries to diversify any further. We were informed that the reason for not diversifying was because they feel comfortable that these two banks are basically sound and the District has an established relationship. The use of only two banks limits the District's opportunities to obtain the best possible interest rate, contrary to the intent of the investment policy.

Audit Recommendation:

The District should adhere to the stated goal of its investment policy to diversify its deposits and investments by soliciting additional quotations from other banks.

Audit Findings and Recommendations

Audit Finding (19):

Inadequacies in Petty Cash Management

The District has a \$200 petty cash fund, which is maintained on an imprest basis. Primary custodial responsibility is vested in the Accountant. Petty cash expenditures during the period January 1, 2006 through December 31, 2008 totaled \$2,459.

Our process review disclosed that:

- a dollar limit for individual petty cash purchases was not established;
- small advances are allowed from the petty fund (i.e., for the purchase of stamps) without any formal record that the advance was made;
- petty cash vouchers and their supporting invoices and receipts were not stamped or cancelled to prevent reuse;
- the replenishment of petty cash activity was not reflected in the general ledger cash accounts. This was done by the outside auditor as a year-end adjusting entry.

We tested four District claim vouchers from the audit period and their supporting documentation, covering 37 individual petty cash expenditures totaling \$650 and noted the following exceptions:

- 35 of the petty cash vouchers were missing a supervisor's approval signature; 2 were missing the signature of the employee who was reimbursed for the expenditure; and 3 were not dated.
- A petty cash payment for \$66 covered car wash expenses for residents whose vehicles had been splashed by one of the District's sanitation vehicles. The supporting documentation lacked the names, addresses or license plate numbers of the residents receiving the service.

Audit Recommendations:

The District should:

- a) ensure that the Commissioners reaffirm the \$200 petty cash fund at their annual reorganization meeting in June and document the approval in the Board Minutes;
- b) implement the use of an advance sheet when a cash advance is provided to an employee;
- c) establish a dollar limit, for example, \$50, for individual petty cash purchases; and
- d) ensure that:
 - i. all petty cash vouchers be properly completed and accompanied by adequate supporting documentation prior to being reviewed and approved by a supervisor. This step will help ensure that all petty cash disbursements are appropriate business expenses and subject to supervisory review and approval;
 - ii. petty cash vouchers be stamped "paid" or cancelled to prevent reuse; and

Audit Findings and Recommendations

- iii. the petty cash general ledger account reflects all replenishments on a timely basis.

Audit Finding (20):

Fixed Assets

The District's fixed assets are comprised of land, buildings and improvements, refuse trucks and other vehicles, machinery and equipment and furniture and fixtures. Fixed assets are recorded at historical cost and depreciation is calculated on a straight line basis, with the estimated useful lives of the assets ranging from 5-10 years for furniture and machinery, to 40 years for buildings and improvements. As of December 31, 2008, the land totaled \$203,400 and fixed assets other than land, net of depreciation, totaled \$445,069.

Assets acquired are added to the District's Fixed Asset Inventory maintained in Microsoft Access by the Clerk using information from the invoices. For dispositions, the Clerk takes a photocopy of the manufacturer's information label on the asset and then handwrites the date and reason for it being disposed. Copies of the invoices and disposal records are held in a folder for use in updating the fixed assets schedule. The Accountant maintains the fixed assets schedule in Microsoft Excel; this schedule is used to compute depreciation and remaining useful life. The District does not perform a periodic inventory of its fixed assets.

We examined the District's fixed asset records and performed an inspection of 25 assets including vehicles, machinery and equipment, and furniture and fixtures. The following exceptions were noted:

- Only the District's vehicles are assigned an internally generated unique identifier. Items of machinery and equipment, and furniture and fixtures were only identifiable by the manufacturer's label.
- The District's Excel fixed asset records often identifies fixed assets in groups, i.e., recycling bins valued at \$38,901, and as a result, individual items of equipment such as printers and personal computers could not be traced from the Excel records to the actual items on hand.
- A copy machine valued at \$200 was still included in the District's Excel fixed asset inventory as of December 31, 2008 even though it had been disposed of in January 2008. An indication of how the asset was disposed of was not documented.
- A physical inspection of Dell personal computers indicated that one personal computer appeared not to have been recorded in the District's books and records. Inventory records listed seven personal computers, while physical inspection revealed eight. In addition, there was a disparity of \$2,788 between the District's inventory list generated in Access, which showed a value of \$20,186 for the personal computers and the detailed fixed asset schedule, which listed a \$22,974 value for the equipment.

Audit Findings and Recommendations

- We noted that the District reassigned unit code No. 71 from a vehicle disposed of in 2007 to a vehicle leased in 2007. The reassignment of ID numbers is a poor practice since it complicates the audit trail.
- Some assets were recorded with different names or descriptions on the Access inventory list than on the fixed asset schedule, making it difficult to verify that they were the same asset during the physical inventory. For example, the Automatic Irrigation System (front lawn) recorded on the Excel fixed asset schedule was listed as the Lawn Sprinkler System on the inventory list.

Audit Recommendations:

The District should:

- a) correct its records for the errors noted in this audit. Specifically, the 2008 disposal of the copy machine should be reflected in the District's Excel fixed asset schedule and the extra computer we inventoried should be entered in the Access inventory list;
- b) promptly record all transactions affecting fixed assets (i.e., additions and deletions) in the Excel fixed assets schedule and the Access inventory to ensure the District's fixed assets record keeping is current and in sync;
- c) ensure that every asset purchased and capitalized be tagged with a unique in-house identifier and labeled as such in the fixed assets records;
- d) develop a procedure to reconcile the Access inventory to the Excel listing and any discrepancies should be resolved; and
- e) perform a periodic physical inventory of fixed assets to ensure completeness of the records.

District's Response and Auditor's Follow-up

(516) 766-8700

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OCEANSIDE SANITATION DEPARTMENT

COMMISSIONERS
Frederick A. Morse
Michael J. Sullivan
Thomas DePollo
Louis DeVito
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Sanitary District No. 7
Town of Hempstead
90 Mott Street
Oceanside, N.Y. 11572

December 21, 2009

Aline Khatchadourian, Deputy Comptroller
Office of the Comptroller
240 Old Country Road
Mineola, NY 11501

Re: Audit Sanitary District No.7 ("District")

Dear Ms. Khatchadourian:

This is in response to your Draft Audit Report dated December 3, 2009 ("Report").

The Board of Commissioners ("Board") formed a committee to review the Report and to prepare this response. This response is being filed with the approval of the Board. Your report for the three years 2006-2008 which took place over the course of approximately a year found no incidents of fraud or falsification. Though in your report you admonish the District about a \$25.00 late fee on a credit card purchase when your auditors were told that this arose out of a dispute with Home Depot over a credit card charge and they refused to omit the fee.

We are reminded of your officers' bias against the existence of special districts as the Oceanside Sanitation District. Your office misleadingly compares our cost of operation with that of the Town of Hempstead which you define as Lido Beach, and Merrick/North Merrick. No comparison is made of the number of institutions we service such as educational, hospital and care facilities and commercial establishments. In addition, the Town of Hempstead, as defined does not pick up commercial establishments.

We stand by the estimate that the average homeowner in Oceanside pays approximately \$360.00 per year for 50% more service (3 days a week pick-up) -\$60.00 less than a resident of the Town of Hempstead (2 days a week pick-up).

The District would like to thank you for acknowledging the cooperation that you received. The Board is very proud of the way the District services the Oceanside Community. We will consider your recommendations and implement those that are cost effective, reasonable and required.

District's Response and Auditor's Follow-up

Audit Finding (1):

Work Performed Out of Title

Certain administrative employees are working Out of Title, but performing duties associated with higher competitive titles and are being paid accordingly. The Accountant has been with the District for twenty years. The District's Secretary has been with the District for twenty two years and performs all of the services normally associated with a secretary, in addition to those enumerated in Audit Finding (3). The Recycling Worker has been with the District fourteen years and functions as an Office Assistant as well as those enumerated in your report.

Civil Service Employees Association, Inc. Local 882²⁶ [sic] which represents the above employees is well aware of the fact that they are working out of title and the Contract with the Union does not prohibit this practice which is not unusual amongst municipalities. A copy of the Union contract was exhibited and exceptions were noted. In addition if one were to compute the employee salaries taking into account the amount of time on the job as well as reasonable salary increments, you will find that the actual salaries are not unreasonable in light of the responsibilities.

Auditor's Follow-up Response:

Our comparison of the salaries of the District's administrative employees to salaries paid by the County took into consideration the job duties and longevity of the employees. We reiterate our findings and recommendations.

Audit Finding (2):

Role of External Audit Firm

The District's Accountant has over twenty years of accounting experience at the District. He has maintained the District's books and records during that time and certainly understands the definitions of an asset, liability, fund balance, revenue and expenditures. He understands the concepts of capitalizing capital assets, depreciating the cost of capital assets over their estimated useful lives and accruing liabilities that exist at year end. He provides a complete listing of all general fund accruals to the auditors. We disagree with your critical assessment and know that he can prepare a basic draft of the financial statements. As noted in your report, he maintained but did not manually post the year-end adjustments to the books and records, which resulted in the findings in your report. The District is now using a new general ledger software program that will have the year-end adjustments posted to it.

The District's General Sanitation Supervisor and the Commissioners have oversight over the auditor's services. One of the Commissioners is a certified public accountant. The auditor meets annually with a Commissioner before the audit and explains the terms of the audit. The auditor also communicates with the Commissioners at the conclusion of the audit concerning the audit findings. We believe there is sufficient evidence of oversight by the Commissioners.

²⁶ The Civil Service Employee's Association, Inc. Local 880 represents administrative employees of the District.

District's Response and Auditor's Follow-up

An effective external audit cannot be accomplished unless the auditor is independent. Your report "calls into question" the independence of the outside auditor. The present audit firm is a peer reviewed firm that has many years of experience auditing local governments and annually performs many local government audits. Each year the auditors ask pertinent questions, obtain evidence and substantiate the balances in the District's general ledger accounts. There is no relationship, personal or financial, between any District personnel and the audit firm or any of its personnel. We are not aware of any shred of evidence that would hint that the auditors are not totally and completely independent.

Auditor's Follow-up Response:

Our interactions with the District's Accountant did not result in the level of confidence expressed by the District. The District Accountant's over-reliance on the external auditor to obtain answers to basic questions about the District's accounting is indicative of the over-involvement of the external auditors in the District's bookkeeping and financial reporting functions. We found no evidence that the District's Accountant prepared a complete listing of all general fund accruals independently from the auditors. We found no evidence, such as Board minutes, to substantiate the District's assertion that the Commissioners communicated with or had oversight of the auditors. The lack of such oversight is what impairs the auditor's independence. We reiterate our recommendation to hire an individual who has the necessary accounting expertise to oversee all aspects of the District's accounting functions.

The District's response did not address our recommendation that it consider adopting a policy of rotating its auditors every five to six years.

Audit Finding (3):

Inadequate Segregation of Duties

The Claim Book is not meant to be a Document of Record, but an informal reference for the Accountant and not meant to reconcile to the books of record.

The District will take under consideration the separation of duties and the feasibility of hiring additional personnel where it deems appropriate.

Auditor's Follow-up Response:

We concur with the corrective action to be taken by the District to consider implementing a segregation of duties. As the Claim Book is used as a reference by the accountant, we recommend that it reconcile to the general ledger. We reiterate our recommendation to institute formal supervisory reviews, as a compensating control, to ensure there are adequate internal controls to minimize errors and the risk of fraudulent activities.

Audit Finding (4):

District's Response and Auditor's Follow-up

Inadequate Written Policies and Procedure

The District is operating efficiently and as you suggest we should document what is already being done. There are many documents in our possession which outline operational procedures. The District will, separate them and place them in appropriate binders.

Your findings and suggestions will be reviewed and a copy of the Local Government Management Guide and the Nassau County Civil Divisions Act will be obtained.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by the District.

Audit Finding (5):

Lack of Board Oversight:

The Board takes exception to your finding of the Lack of Oversight. The Board reviews quarterly reports of actual versus budget expenditures. In addition, if any capital or major expenditures are contemplated, there is always a full Board discussion and analysis presented by the General Sanitation Supervisor ("GSS"). An example of a copy of what is given to the Board is attached as Exhibit A.

Your Auditors either misunderstood what may have been told them or were given incorrect information regarding appropriate discussion for Executive Sessions. On the advice of counsel only legal or personnel matters are discussed in Executive Session.

The District will certainly consider your suggestions regarding additional information to be provided to the Board at monthly meetings, i.e., check numbers, check dates, description of vendor payment, and appropriate totals. We will make certain that all Commissioners sign Board minutes to document their attendance at meetings (some of these suggestions have been implemented).

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by the District. We reiterate our recommendation that the Board minutes memorialize all documents reviewed and discussions held.

Audit Finding (6):

Unauthorized Use of 2006 Unreserved Fund Balances

The original appropriation budget for the year ending December 31, 2006 was \$6,282,008 or \$33,831 (0.54%) higher than the original appropriation budget for the year ending December 31, 2005. Unfortunately, in the 2006 year, necessary expenditures for truck parts (\$39,911) truck maintenance

District's Response and Auditor's Follow-up

gas & oil (\$33,094) hospitalization insurance (\$44,070) and workmen's compensation (\$106,007) in excess of the original appropriation budget occurred and were funded from available fund balance. We are not aware that the District is required to obtain approval from the Town of Hempstead for the necessary increased expenditures.

The District purchased two sanitation vehicles by financing the acquisition with a capital lease obligation. The capital lease obligation is a long term liability of the District that is not recorded in its general fund. Subsequent budgets always included the annual lease payments required to properly pay the lease obligation in a budget line for equipment. However, the payment of this lease actually represents principal and interest payments on the lease obligation. The amount provided in the budget line for equipment appropriations should actually be reported in the budget as debt service payments. The District intends to follow this practice when it prepares its next annual budget. We do not understand your comment that "this practice understates the current liabilities of the District and misrepresents the District's necessary cash flow needs". The amount for the lease payments was always included in original appropriations.

Auditor's Follow-up Response:

The Nassau County Civil Divisions Act (CDA 222.4) states that there can be an increase in the annual amount to be expended by a special district with a resolution of the Town Board after public hearing and a determination that it is in the best interest of the public. We reiterate our recommendation that the District complies with Town Law to ensure transparency and full communication and obtains approval from the Town Board for any expenditures of the unappropriated fund balance that exceed original budgeted amounts.

The practice of misrepresenting the true nature of certain expenses in the budget, such as the current portion of debt service, understates the budget and misrepresents the corresponding cash flow required to make such payment. Someone reviewing the District's budget could wrongfully conclude that the District did not have any debt related cash flow needs. We concur with the District's corrective action to budget for the current portion of debt service in the appropriate budget line.

The District's response did not address our recommendations to ensure that paid expenditures for the prior year are considered in the budgeting process, and to document budget decisions and justifications, as well as budget transfers and adjustments in the District's budget records.

Audit Finding (7):

Increases in Property Tax Levy Appropriateness of Fund Balance

The District prepares a budget on what it estimates its expenditures for the coming year based on past experience as well as predicting possible needed expenditures. This is not an exact science and no attempt is made to over budget to create an unreasonable unrestricted reserve.

District's Response and Auditor's Follow-up

The District's unreserved fund balance as of December 31, 2008 was \$1,616,615.00. This represents approximately ten and one half weeks of operating expenses. Given the fact that taxes are not due until the middle of February and then remitted to the District, it is not unreasonable for the District to protect itself from potential short fall of revenue.

Auditor's Follow-up Response:

The property tax levy comprises approximately 97% percent of revenues. Payment of this levy is guaranteed by the County and there is no need to carry excessive fund balances to protect against "potential shortfall of revenue".

Audit Finding (8):

Lack of Internal Controls over Cash Disbursements

The heading of this Finding makes a strong statement to immediately give the impression that controls do not exist. This is totally false.

The District will review its approval process of vouchers submitted for payment. All vouchers are approved by two individuals. However, we will implement the suggested procedure to use a stamp.

Upon investigation we found no incidences where the Accountant signed vouchers on behalf of Vendors. The accountant transposes certain information from an invoice to the District form where the claim form is not received from the vendor (LIPA does not include claim form when submitting a bill).

At the June Reorganization Meeting the retention of Legal Counsel is approved. Given the fact that a general statement of the lack of internal control regarding cash disbursements is the heading for this Audit Finding, the results after audit scrutiny was de minimis. The suggestion regarding formalizing written procedures is well taken.

Auditor's Follow-up Response:

The District's response did not address our recommendations to develop formal and thorough cash disbursement procedures to ensure that adequate internal controls are in place and to provide guidance to District employees. We reiterate our findings and recommendations.

Audit Finding (9):

Lack of Internal Controls over Fuel

The fuel tanks were pressure tested on 8/17/08 and the tanks were found not to be leaking, a Nassau County representative was present. A copy of the test is attached as Exhibit B.

District's Response and Auditor's Follow-up

Some discrepancies are noted in the dip stick method of determining the amount of fuel present. This method is subject to inaccuracies. They are minor, at best and can be caused by the manner in which the dip stick is inserted in the tank as well as the temperature of the fuel. To do away with any error, the District is presently investigating the purchase of a Gas Boy Fuel Dispensing System which would computerize fuel deliveries and dispensing.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken to consider the purchase of a computerized fuel dispensing system. Given that the District has eliminated tank leakage as a potential cause of fuel inventory shortages, we recommend that it investigate other possible causes for excessive variances, and strengthen controls and inventory procedures. The District's response does not address our recommendation to limit the number of employees who have keys enabling them to access fuel.

Audit Finding (10):

Procurement of Goods and Services

The suggestion that we are circumventing the bidding requirements as required in the General Municipal Law is unfounded. It is unrealistic for the District to include in the Budget, which has to be submitted to the Town of Hempstead in September, what the District's requirements for repairs, parts and outsource maintenance will be for the coming year.

When a situation arises where it appears that a low bidder is not awarded a contract, it is fully discussed at an open Board Meeting and the District responds to any and all questions regarding the bid. In the two instances cited in the report there were valid reasons for awarding the respective bid. In the case of uniforms the lowest bidder did not comply with the bid specifications. In regard to the recyclables, though there were two similar low bids, the bid was given to a local company as opposed to a Suffolk County company because it was believed that the needs of the District would be better served by a local company.

In regard to the Remediation of Land, this was an emergency situation which called for immediate action to avoid a potential health and safety hazard. Although it is true that the GSS was provided with a verbal quote from a Contractor for \$30,000.00 this was for a temporary repair. The \$64,925 was approved by the Board for a permanent restoration. The additional cost of \$9,261.00 was the result of the Contractor not being able to fully determine the full extent of the damage.

The suggestion that more information could be placed into the file to substantiate the decisions of the Board is appropriate.

Auditor's Follow-up Response:

Our recommendation that the District requires bids based on projected annual expenses is not a budgeting issue. We recommend that the District examine prior purchasing histories and

District's Response and Auditor's Follow-up

current needs to determine those purchases that may exceed \$10,000 annually and use the bidding process to obtain those goods.

Given that work on the remediation project did not begin until approximately five months after Board authorization, we believe that the District had ample time to bid out the project,

We concur with the corrective actions to be taken to better document Board decisions.

Audit Finding (11):

Legal Services

Counsel has provided a written retainer.

Auditor's Follow-up Response:

We concur with the corrective action taken by the District to obtain a retainer agreement from Legal Counsel. The District's response did not address our recommendation that it require its Legal Counsel to submit invoices which detail the services provided.

Audit Finding (12):

Store Credit Card Purchases and Purchases on Account

The District will review its procedures regarding credit card purchases.

Auditor's Follow-up Response:

We concur with the corrective action taken by the District.

Audit Finding (13):

Vehicle Parts, Tires and Repairs

District makes purchases on a need-to-use basis. In addition the District tries to salvage parts from disabled vehicles limiting the need for excessive inventory and unwarranted expense. However a review the procedures that are maintained in the repair shop will be examined.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by the District.

District's Response and Auditor's Follow-up

Audit Finding (14):

Communications Expenditures

The Auditors question several charges for night calls and noted that the normal business hours are from 8:30 a.m. to 4:40 p.m. However, the Auditors may be unaware that the District is open and working on Saturdays and Saturday calls are shown as night calls. In addition, employees begin arriving at 5:30 a.m. and calls made at that time are also considered night calls.

Auditor's Follow-up Response:

The District's response does not address our recommendations that it consider competitively procuring communication services and that it review Nextel bills for erroneous charges. We reiterate our findings and recommendations.

Audit Finding (15):

Leave Record Maintenance

Vacation periods are handled differently for the two District Unions. Members of the Teamsters Union, Local 854, post their requested vacation times on a calendar kept in the Supervisors office and the final and approved calendar is posted in the garage. Members of the Civil Service Union, Local 880, request their vacation time on forms provided. Subsequently, the vacation time taken is recorded on the employee's cards. In order to accurately calculate unused time the CSEA employees unused personal days and floating days are added to sick time. In regard to Local 854 employees refer to the union contract Article VIIE.

Auditor's Follow-up Response:

The District's response does not address our findings regarding the accuracy of accumulated leave balances. We reiterate our findings and recommendations.

Audit Finding (16):

Manually Maintained Books and Records of Account are Subject to Error:

To eliminate the need for manually maintained books and records of account the District has installed new accounting software so that manual record keeping will be eliminated which we trust will address the concerns of the Auditors.

The District does not subscribe to encumbrance accounting and therefore does not record its commitments. However, your report indicates that this practice does not reflect the District liability for unpaid invoices. The Accountant reviews unpaid invoices at year end and provides the outside auditor with this complete listing. The outside auditor does not determine the payable at year end for financial reporting purposes. However, the outside auditor tests the listing the Accountant gives them for accuracy and completeness.

District's Response and Auditor's Follow-up

As noted in a prior response the claim book is not meant to be an accurate record of liabilities. Institution of the new accounting system will do away with the need to maintain a claim book.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by the District to obtain new accounting software. The District's response does not address our recommendations that liabilities be recorded monthly instead of at year-end only and that the Accountant's work be formally reviewed and approved by a supervisor.

Audit Finding (17):

Bank Accounts and Bank Reconciliations

We will review the findings and how the institution of Quick Books will decrease the likelihood of errors and irregularities in banking transactions.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by the District to enhance its use of Quickbooks. The District's response does not address our recommendations that:

- *ADP be required to supply lists of outstanding checks;*
- *policies and procedures be implemented regarding stale dated checks; and that*
- *a supervisor review bank reconciliations.*

Audit Finding (18):

Investment of Excess Funds in Certificate of Deposit

The District on occasion has tried to diversify the investment of their funds. However, only the Bank of America and Chase Bank are prepared to do business with us. It may well be that the funds are not left on deposit for any extended length of time and establishing and maintaining these accounts is not economically viable.

Auditor's Follow-up Response:

We recommend that the District reach out once again to other banks and report those who refuse to accept the District's deposits to the New York State Banking Department.

Audit Finding (19):

Inadequacies of Petty Cash Management

District's Response and Auditor's Follow-up

The District will review Audit recommendations.

Auditor's Follow-up Response:

We concur with the corrective action to be taken by the District.

Audit Finding (20):

Fixed Assets

The District will review the findings and implement the most cost effective inventory control system.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by the District.

We reiterate our recommendation that the District correct its records for the errors noted in the report.

Very truly yours,

Sanitary District No. 7

By: 
Jerome Z. Cline
Counsel to Sanitary District No. 7

Commissioners:


Thomas Dapolito, Chairman


Frederick A. Morse


Michael J. Salfron


Louis DeVito


Florence Mensch

District's Response and Auditor's Follow-up

EXHIBIT A
9/30/09

	Budget 09		Expended		Unexpended		proposed 10		Change
Administration:									
Commissioners Fees*	\$ 37,500.00	\$ 20,000.00	\$ 16,620.00	\$ 16,620.00	\$ 37,500.00	\$ 37,500.00	\$ -	\$ -	\$ -
Office Equipment	\$ 1,500.00	\$ -	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ -	\$ -	\$ -
Contractual:									
Attorney	\$ 10,000.00	\$ 10,500.00	\$ 7,500.00	\$ 7,500.00	\$ 10,000.00	\$ 10,000.00	\$ -	\$ -	\$ -
Outside Contract Services	\$ -	\$ 1,000.00	\$ (1,000.00)	\$ (1,000.00)	\$ -	\$ -	\$ -	\$ -	\$ -
Auditor's Fees	\$ 31,000.00	\$ 24,780.00	\$ 6,220.00	\$ 6,220.00	\$ 35,000.00	\$ 35,000.00	\$ -	\$ (4,000.00)	\$ -
Employee Training	\$ 1,000.00	\$ 1,149.95	\$ (149.95)	\$ (149.95)	\$ 2,000.00	\$ 2,000.00	\$ -	\$ (1,000.00)	\$ -
Professional Services	\$ 36,000.00	\$ 21,000.00	\$ 15,000.00	\$ 15,000.00	\$ 36,000.00	\$ 36,000.00	\$ -	\$ -	\$ -
Election Expense	\$ 2,600.00	\$ 1,442.70	\$ 1,157.30	\$ 1,157.30	\$ 2,600.00	\$ 2,600.00	\$ -	\$ -	\$ -
Office Expense	\$ 7,000.00	\$ 4,236.35	\$ 2,763.65	\$ 2,763.65	\$ 7,000.00	\$ 7,000.00	\$ -	\$ -	\$ -
Postage	\$ 700.00	\$ 399.36	\$ 300.64	\$ 300.64	\$ 700.00	\$ 700.00	\$ -	\$ -	\$ -
Telephone	\$ 5,000.00	\$ 1,698.88	\$ 3,301.12	\$ 3,301.12	\$ 5,000.00	\$ 5,000.00	\$ -	\$ -	\$ -
Recycling Equipment & Supplies	\$ 95,000.00	\$ 88,050.00	\$ 6,942.00	\$ 6,942.00	\$ 200,000.00	\$ 200,000.00	\$ (105,000.00)	\$ (105,000.00)	\$ -
Refuse & Garbage:									
New Equipment	\$ 500,000.00	\$ 167,842.13	\$ 332,157.87	\$ 332,157.87	\$ 500,000.00	\$ 500,000.00	\$ -	\$ -	\$ -
Fuel & Oil	\$ 250,000.00	\$ 52,651.53	\$ 197,348.47	\$ 197,348.47	\$ 250,000.00	\$ 250,000.00	\$ -	\$ -	\$ -
Radio	\$ 12,500.00	\$ 3,853.71	\$ 8,646.29	\$ 8,646.29	\$ 12,500.00	\$ 12,500.00	\$ -	\$ -	\$ -
Truck parts, Repairs & Equipment	\$ 175,000.00	\$ 75,762.73	\$ 99,237.27	\$ 99,237.27	\$ 175,000.00	\$ 175,000.00	\$ -	\$ -	\$ -
Tires & Tire Repairs	\$ 45,000.00	\$ 15,302.77	\$ 29,697.23	\$ 29,697.23	\$ 45,000.00	\$ 45,000.00	\$ -	\$ -	\$ -
Insurance	\$ 590,428.80	\$ 257,230.11	\$ 333,198.69	\$ 333,198.69	\$ 590,428.80	\$ 590,428.80	\$ -	\$ -	\$ -
Substance Testing	\$ 11,000.00	\$ 3,538.75	\$ 7,461.25	\$ 7,461.25	\$ 11,000.00	\$ 11,000.00	\$ -	\$ -	\$ -
Safety Equipment	\$ 2,500.00	\$ -	\$ 2,500.00	\$ 2,500.00	\$ 2,500.00	\$ 2,500.00	\$ -	\$ -	\$ -
Utilities	\$ 35,000.00	\$ 14,383.40	\$ 20,616.60	\$ 20,616.60	\$ 35,000.00	\$ 35,000.00	\$ -	\$ -	\$ -
Building Maintenance	\$ 35,000.00	\$ 19,411.15	\$ 15,588.85	\$ 15,588.85	\$ 35,000.00	\$ 35,000.00	\$ -	\$ -	\$ -
Uniforms, Raingear, Gloves	\$ 25,000.00	\$ 15,064.22	\$ 9,935.78	\$ 9,935.78	\$ 25,000.00	\$ 25,000.00	\$ -	\$ -	\$ -
Computer Bank Services	\$ 13,000.00	\$ 9,509.18	\$ 3,490.84	\$ 3,490.84	\$ 14,000.00	\$ 14,000.00	\$ (1,000.00)	\$ (1,000.00)	\$ -
Employee Benefits:									
Operating Payroll	\$ 4,174,701.44	\$ 2,326,774.42	\$ 1,787,927.02	\$ 1,787,927.02	\$ 4,103,839.16	\$ 4,103,839.16	\$ 10,862.28	\$ 10,862.28	\$ -
Termination Benefits	\$ 290,000.00	\$ 50,000.00	\$ -	\$ -	\$ 50,000.00	\$ 50,000.00	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NYSRS Employer Contribution	\$ 330,104.00	\$ 274,917.00	\$ 55,187.00	\$ 55,187.00	\$ 459,125.00	\$ 459,125.00	\$ (129,021.00)	\$ (129,021.00)	\$ -
Social Security	\$ 313,830.50	\$ 176,902.17	\$ 136,928.33	\$ 136,928.33	\$ 299,580.26	\$ 299,580.26	\$ 14,250.24	\$ 14,250.24	\$ -
Hospitalization	\$ 1,104,479.24	\$ 682,682.62	\$ 521,796.62	\$ 521,796.62	\$ 1,145,646.06	\$ 1,145,646.06	\$ (40,966.84)	\$ (40,966.84)	\$ -
Disability	\$ 2,184.00	\$ -	\$ 2,184.00	\$ 2,184.00	\$ -	\$ -	\$ -	\$ -	\$ -
Dental	\$ 45,166.00	\$ 24,895.70	\$ 20,180.30	\$ 20,180.30	\$ 47,515.20	\$ 47,515.20	\$ (2,349.20)	\$ (2,349.20)	\$ -
Optical	\$ 10,350.00	\$ 10,500.00	\$ (150.00)	\$ (150.00)	\$ 10,350.00	\$ 10,350.00	\$ -	\$ -	\$ -
Shoe	\$ 8,500.00	\$ 8,100.00	\$ 400.00	\$ 400.00	\$ 8,500.00	\$ 8,500.00	\$ -	\$ -	\$ -
Total	\$ 7,909,043.98	\$ 4,264,556.81	\$ 3,644,487.17	\$ 3,644,487.17	\$ 8,167,268.50	\$ 8,167,268.50	\$ (258,224.52)	\$ (258,224.52)	\$ -
Less Interest	\$ (26,302.11)	\$ (6,236.00)	\$ -	\$ -	\$ (4,830.95)	\$ (4,830.95)	\$ -	\$ -	\$ -
Less Fund Balance	\$ (259,255)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Budget	\$ 7,982,482.62	\$ 4,258,320.81	\$ 3,624,161.81	\$ 3,624,161.81	\$ 8,158,437.55	\$ 8,158,437.55	\$ 3,509.9%	\$ 3,509.9%	\$ -

District's Response and Auditor's Follow-up

EXHIBIT B

DRY AS A BONE INC.
D.A.A.B. INC.

69 CANTILLAN BLVD.
ROCKVILLE CENTRE, NY 11570
P:(516) 678-5113
F:(516) 678-9149

135-44 S. CONDUIT AVE.
JAMAICA, NY 11434
P:(718) 949-1949
F:(718) 527-6688

TANK TEST CERTIFICATE

Location: *Oceanside Sanitation*

PURCHASE ORDER#:

CONTACT: *Eddie*

CONTACT ADDRESS: *90 Mott Street Oceanside , NY*

PHONE:

SITE ADDRESS: *Same as above*

TEST METHOD: *Horner EZY Chek II*

TEST CRITERIA: *+/- .05 gph.*

TEST DATE: *8/17/08*

<u>TANK#</u>	<u>CAPACITY</u>	<u>PRODUCT</u>	<u>TEST RESULT</u>
001	4000-gallons	Diesel	-.021 gph.
002	4000-gallons	Gasoline	+.011 gph.

REMARKS: *Tanks & lines Passed*

APPROVA: *T.J. O'Conner/Cert.#: 74-3299\Nassau Co. Lic.#:7532210*

SIGNATURE:

