

**Nassau County
Office of the Comptroller**



**Limited Financial Review
of the South Farmingdale Water District**

GEORGE MARAGOS

Comptroller

March 3, 2011

NASSAU COUNTY
OFFICE OF THE COMPTROLLER

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Executive Summary

Background

Water districts are governmental subdivisions that exist solely to provide water for residents and commercial establishments within their own jurisdictional boundaries. The South Farmingdale Water District (the “District”) was established by the Town of Oyster Bay, NY, on April 14, 1931. The District comprises an area of approximately 5.5 square miles, servicing South Farmingdale, North Massapequa, and portions of Bethpage, Seaford, Massapequa Park and East Massapequa. The District is a component unit of the Town of Oyster Bay.

The District provides an authorized capacity of 20,400,000 gallons of water per day from eleven existing deep wells with depths varying from 347 to 758 feet. After treatment, water is stored in four storage tanks with a total capacity of 3,200,000 gallons. More than 124 miles of underground water mains transport water from storage to 50,000 consumers and 1,260 fire hydrants in the District. The District has 12,672 service connections; the majority of connections are residential, while 5% are commercial properties. The District has six plant sites located throughout the territory served.

District Operations

The District’s operations are overseen by a Board consisting of three elected Commissioners who serve three-year terms. Key management officials consist of the Business Manager, the Superintendent and the Office Manager. At the time of our audit, the District had 18 employees.¹ Total District expenses for employee salaries and fringe benefits were \$1,577,558, \$1,765,531, and \$1,565,376 for 2006, 2007 and 2008, respectively. These costs represent 43%, 45%, and 40% of the District’s total expenditures of \$3,709,823, \$3,918,176, and \$3,894,028 in 2006, 2007 and 2008, respectively. The District’s employees, excluding the managers, are members of the Civil Service Employees Association (“CSEA”) Local 1000 (South Farmingdale Water District Unit).

The District derives its operating revenues primarily from the collection of real property taxes and customer charges for water usage. Additional District revenues are derived from interest income, the sale of water supplies and equipment, and the rental of real property. Total District revenues reported for 2006, 2007 and 2008, were \$4,111,636, \$4,431,166 and \$4,393,007, respectively.²

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, meetings and conferences, bank accounts and bank reconciliations, and fixed assets. Our review of the internal controls was conducted to provide us reasonable assurance that there

¹ Per South Farmingdale Water District Listing of Employees provided January 1, 2009.

² Per South Farmingdale Water District Audited Financial Statements for the years-ended December 31, 2006, 2007, and 2008.

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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.

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.

We believe that this audit provides a reasonable basis for the audit findings and recommendations.

We would like to acknowledge the full cooperation of the District's management and staff during the course of this audit.

Summary of Significant Findings

Inadequate Controls Over Meetings, Conferences and Non-Operating Expenditures

Our audit noted that there were inadequate controls over expenditures related to meetings and conferences attended by the District's Commissioners and management because the credit card guidelines, which governed these expenses at that time, were not specific as to the dollar limits of permitted costs, and did not include a methodology for monitoring compliance. An example of this is the excessive discretionary spending totaling \$11,805 related to a conference held in Toronto in 2007. In addition, the method used for reconciling the expenses associated with attending these meetings and conferences was flawed, because it did not require that out of pocket expenses be supported by original receipts. Our audit also noted instances where the District made disbursements that did not appear to have a valid business purpose, including an expenditure made by a Commissioner, who also had the authority to review and approve expenditures and sign checks.

Funding of Capital Projects through Over-budgeting of Operating Expenses

As permitted by the New York State Comptroller's *Local Government Management Guide – Reserve Funds*, the District established a Capital Fund, which is a reserve fund, to finance the cost of improvements to the water distribution system. Our review revealed that the District routinely budgeted more expenditures than the actual results of prior years, without supporting rationale and did not appropriate any portion of its fund balance to the ensuing budget. Further, the District routinely transferred more than the budgeted amount to the Capital Fund. These practices resulted in a build-up of the District's unreserved General Fund, as well as a lack of transparency to the public with regard to the cost of District's operations and the manner in which the District funded the Capital Fund.

Lack of Adherence to Budget or Budget Justification

The District did not have a formal control in place to prevent over-expenditure of budget lines as vouchers were paid and resulted in the District spending \$49,829 more than the \$65,000 budgeted for vehicle purchases. We found no evidence to support the business rationale for one of the vehicle purchases or Board authorization to exceed the budget.

The Business Manager indicated that he reviewed actual to budgeted numbers on a quarterly basis with the Board, but there was no written documentation in the Board minutes to evidence this process. Based upon our discussions with the Business Manager, the District did not begin to focus its attention to line-by-line budget variances until late in the year, and we found no supporting documentation to evidence this review.

District Elections: Employment of Family Members

For the 2006, 2007 and 2008 elections, a total of four relatives of the incumbent Commissioners and managers (two each year), were hired to work as inspectors. In addition to overseeing the voting activities, these relatives also signed the Absentee Ballots certification. As the District Commissioners and management have an interest in the outcome of the election conducted by the election workers, the hiring of related parties appears to present a conflict of interest.

Disparate Treatment of Current and Post-Separation Benefits

Life Insurance

The District paid \$62,107 in life insurance premiums during the audit period to insure the lives of District Commissioners and managers. The District was not the beneficiary on these policies. The life insurance is provided to the Commissioners and managers in addition to the death benefit provided by the New York State and Local Retirement System (“NYSLRS”). New York State has authorized special districts to purchase group life insurance for their employees.³ However, there is no statutory authorization for individual life insurance policies, and the State Comptroller has stated, before a 2007 change of law authorizing the purchase of group policies by special districts, that special districts could not purchase individual life insurance policies for employees.⁴ Further, employees covered by Civil Service Employees Association (“CSEA”) Local 1000, are only eligible to be covered by CSEA Membership & Group Life Insurance and must pay the full cost, resulting in disparate treatment of District employees.

Health Insurance

District Commissioners and managers receive fully paid health insurance, while employees covered by the District’s collective bargaining agreement with the CSEA Local 1000 contribute 10% toward the payment of premiums for health insurance coverage (effective January 1, 2004). In addition, the District provides lifetime individual and family (spouse only) fully paid health and dental insurance coverage to Commissioners upon their separation from the District after nine consecutive years of service (three terms), once they reach the age of 50. Further, managers are eligible for fully paid health insurance upon retirement if they have attained the age of 50 and been employed by the District for ten years. In contrast, CSEA Local 1000 retirees are only eligible for coverage at the age of 55 after 20 years of employment at the District; and they must contribute 10% toward the cost of the premiums.

Lack of Adequate Support for Commissioner Per Diem Payments for Attending External Meetings and Conferences

The District’s three elected Commissioners serve on a part-time basis, and are paid \$100 per diem for attending each District-held or external meeting and conference, or if they are attending to District business. We found no evidence in the Board minutes to document the Commissioners’ actual attendance, or what was discussed at each external meeting or

³ N.Y. Gen. Mun. L. § 93 (McKinney 2010).

⁴ 1993 Op. State Comptroller, File No. 0591147 (Mar. 23, 1993).

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conference. Therefore, we were unable to verify that services rendered by the Commissioners on behalf of the District at external meetings and conferences, were not "...nominal, unsubstantial, trivial or inappreciable" as Opinion 90-49 cites, because we could not verify that they had attended the external meetings or conferences.

Leave Policy: Disparate Treatment of Managerial Employees

Our review revealed a major disparity with the leave benefits provided to managerial employees versus those provided to non-managerial employees resulting in the payment of extraordinary amounts to managerial employees upon termination of service. For example, managerial employees are entitled to accumulate a maximum of 260 days of sick leave whereas non-managerial employees may accumulate only 180 days of sick leave. Upon retirement or separation, managerial employees or their beneficiaries will be reimbursed at 100% for any unused sick leave balance provided that the employee has attained 50 years of age and has been employed by the District for the last ten years prior to retirement. However, non-managerial employees, upon retirement, will be reimbursed for only up to 60 days if the employee has attained the age of 55 years and has been employed by the District for the last ten years prior to retirement.

Managerial employees are entitled to five days of vacation leave after six months of continuous service; 14 days after twelve months of continuous service; and one additional day for each subsequent year of service, up to a maximum of 25 vacation days per year. Vacation leave accumulates from one employment year to the next, and a maximum number of vacation days had not been established. Upon separation, managers are paid 100% of their unused vacation leave. In contrast, the District's Local 1000 non-managerial employees may earn a maximum of 25 days of vacation leave, but must use their vacation time each year.

Weaknesses in Internal Controls over Cash Disbursements

Internal controls over the voucher review and payment process are essential for determining that payments to vendors represent valid business expenses, are properly supported by appropriate documentation, and are approved in accordance with the District's bylaws and General Municipal Law. Strong internal controls also reduce the likelihood that errors and irregularities may occur and go undetected, and ensure that District assets are protected from the risk of fraud, waste and mismanagement.⁵ Our review of the District's cash disbursements process noted several internal control weaknesses that increase the likelihood that improper or unauthorized payments could be made. For example, checks were printed and signed (using a facsimile plate) prior to the review and approval of the vouchers and their supporting documentation by the Commissioners. The audit also identified instances where disbursements were not adequately supported.

⁵ As recommended by the N. Y. S. Comptroller's Office, *Local Government Management Guide Internal Controls*, pp. 1- 2.

Incomplete or Inadequate Written Policies and Procedures

Written policies and procedures are an effective internal control tool to provide guidance and ensure the reliability of accounting data and financial reporting. As defined by the New York State Comptroller's *Local Government Management Guide Internal Controls*⁶, written policies and procedures should include details of significant activities and unique issues, employee responsibilities, limits to authority, performance standards, control procedures and reporting relationships. Our audit noted that the District did not have written policies and procedures for its day-to-day accounting procedures which detail the roles and responsibilities associated with recording and maintaining transactions. Written policies and procedures also did not exist to cover other key processes, including but not limited to, the maintenance and reconciliation of bank accounts, the budget review process, the management of expenditures on a line item basis and fixed asset accounting and reporting.

Inadequate Segregation of Duties

An effective internal control system requires the separation of duties so than no one single employee has control of, or performs, all phases of an accounting function. The Office of the New York State Comptroller notes, that 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."⁷

Our audit noted that the District's administrative staff consists of only eight employees and the District has concentrated certain key duties with single individuals. However, we found no evidence that the District had formally and adequately increased oversight as a mitigating control to the lack of segregation of duties.

Lack of Written Evidence for Board Oversight of Investment Activities

The District invests in Certificates of Deposit ("CDs"). During the audit period, the District earned \$ 472,087 in interest from its investments in CDs. As of December 31, 2008, outstanding CDs totaled \$2,496,355. We noted that the District's investment policy did not include guidance on how its investment transactions should be recorded and tracked. The Commissioners were advised by the Business Manager of the maturing CDs and whether, based on cash flow needs, to redeem them, rollover the funds, or adjust the amount of District funds being invested. The Business Manager was also authorized to execute investment transactions; a second signature was not required on the CD purchase and redemption forms sent to the bank. Our audit noted that Commissioners were not provided with written analyses or schedules that tracked CD purchases, rollovers and redemptions. Consequently, documentation did not exist to evidence the Commissioners' review of the District's investment activities.

Inadequate Protocol for Board Minutes

⁶ N.Y.S Comptroller's Office, *Local Government Management Guide Internal Controls*, p. 4
http://www.osc.state.ny.us/localgov/pubs/lmg/internal_controls.pdf

⁷ N.Y.S. Comptroller's Office, *Local Government Management Guide Internal Controls*, p. 8.
http://www.osc.state.ny.us/localgov/pubs/lmg/internal_controls.pdf

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The Office of the New York State Comptroller has observed, “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. 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.”⁸ Board minutes are prepared to formalize the governing board’s actions and decisions, and frequently serve as the key authoritative documentation for the financial activities of the District. The contents of Board minutes can also provide insight into the level of Board involvement and the nature of the oversight it provides.

Our review noted that the Board minutes were not prepared in a timely manner which resulted in a lack of transparency as to the operations of the District. For example, Board minutes did not exist to support the transfer of \$1.2 million from the general fund to the capital project fund at the end of 2008. We also noted that Board minutes did not reflect all District disbursements and were not formally adopted at the subsequent meeting.

Role of External Audit Firm

The District relied heavily on its external firm to perform non-attest services such as preparing and explaining journal entries and budget adjustments, determining accounts payable at year-end, closing the books, and drafting the interim and year-end financial statements and cash flow statements. The audit firm’s engagement letter refers to the non-attest services, and identified the District’s Business Manager as the key contact to interface with and oversee the work of the external auditor. However, due to the small size of the District’s Administrative staff, the Business Manager performed many roles, limiting his availability to effectively oversee the external auditor and preserve the external auditor’s independence.

Other Findings

During the course of this audit, we noted other findings related to Fixed Assets, Accounts Receivable, Engineering Consultants, Take Home Vehicles, Diesel Fuel, Petty Cash and Passwords that are detailed in this report.

The matters covered in this report have been discussed with officials of the District during this audit. On July 14, 2010, we submitted a draft report to the District with a request for comments. The District requested an extension to September 9, 2010. An Exit Conference was held with officials of the District on September 20, 2010, to discuss the draft findings and recommendations; at that time,

⁸ N.Y.S. Comptroller’s Office, *Local Government Management Guide Fiscal Oversight Responsibilities*, p. 1.
http://www.osc.state.ny.us/localgov/pubs/lmg/fiscal_oversight.pdf

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the District provided this Office with a draft of its responses. A revised draft audit report was submitted to the District on October 28, 2010 and again on December 30, 2010. The District's final comments, received on January 13, 2011 are included as an appendix to this report.

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Audit Findings and Recommendations

Audit Finding (1):

Inadequate Controls Over Meetings, Conferences and Non-Operating Expenditures

Our audit noted that there were inadequate controls over expenditures related to meetings and conferences attended by the District's Commissioners and management because the credit card guidelines, which governed these expenses at that time, were not specific as to the dollar limits of permitted costs, and did not include a methodology for monitoring compliance. An example of this is the excessive discretionary spending related to a conference held in Toronto in 2007, where \$11,805 in costs was incurred for attending. In addition, the method used for reconciling the expenses associated with attending these meetings and conferences was flawed, with respect to the reimbursement of expenses because it did not require that out of pocket expenses be supported by original receipts. Our audit also noted instances where the District made disbursements that did not appear to have a valid business purpose, including an expenditure made by a Commissioner, who also had the authority to review and approve expenditures and sign checks.

According to our review of the District's general ledger expenses, the District's total meeting and conference expenses for the audit period January 1, 2006 through December 31, 2008, were \$67,980. Of the \$67,980:

- \$30,922 represented charges made with the District's procurement credit card, American Express ("AMEX"), for travel, lodging and meal expenses to attend meetings and conferences;
- \$36,196 represented expenses for meetings and conferences, dues, memberships and subscriptions that were paid directly to vendors by the District and
- \$862 represented out-of-pocket expenses reimbursed to the District Commissioners and employees.

The District's credit card guidelines were documented in the text of the February 9, 1999 Board minutes. The minutes stated that, "each procurement card shall be used for, but not limited to, travel, fuel, hotels, car rentals, meals and all types of purchases." It was further resolved that "any purchases made by procurement cards that, at the sole discretion of the Board of Commissioners were not for official use, the charges shall be reimbursed to the District within thirty days of the date of the purchase." The credit card guidelines covered which employees were authorized to use the credit cards and specified credit limits. The guidelines documented in the text of this meeting did not cover how compliance with the credit card guidelines would be monitored, or provide for any dollar limits by individual expenditures.

Credit Card guidelines also did not include a requirement to use a standard expense form for employees to submit at the end of a trip or whenever the credit card was used. Proper internal control incorporates the completion of a standard expense form for accountability purposes, to monitor compliance with the District's guidelines, and to ensure that unauthorized expenses are identified and reimbursed to the District.

Audit Findings and Recommendations

Our testing identified exceptions related to discretionary charges⁹ for meetings and conferences, and expenses that did not appear to have a valid business purpose. The majority of these expenses were charged to the District's AMEX credit cards issued to each of the three Commissioners, the Business Manager and the Superintendent; there is one general-use card issued in the name of the District, which was secured on the District's premises.¹⁰

1. Included below are examples of some of the exceptions noted during our testing of the 2007 Toronto conferences referenced above.

The Board authorized two of its Commissioners and the Business Manager to attend the American Water Works Association's Annual Conference and Exposition in Toronto, Canada, held Sunday, June 24, 2007 through Thursday, June 28, 2007. The total cost to the District was \$11,805. The District could not provide a copy of a conference brochure or the agenda for each day. We were informed by the Business Manager that the Conference started with a reception dinner the evening of June 24th and continued through midday on June 28th. A review of the related monthly AMEX statements and the attached support noted the following:

- a) The Business Manager checked-in at the hotel in Toronto on Monday, June 25th; however, the two Commissioners chose to check-in on Saturday, June 23rd. The conference started with a banquet on Sunday evening and there was no evidence attached to the AMEX statement, or any narrative in the Board minutes to support the necessity for lodging costs on June 23, 2007. The cost to the District for the Saturday check-in was \$631. Our review of the hotel bills also noted that a guest accompanied each Commissioner on this trip, although there was no additional room cost to the District for the double occupancy.
- b) The charge for the attendees' total airfare cost of \$1,075 (approximately \$358/person) was unsupported by receipts or boarding passes. Proper internal controls over cash disbursements dictate that all expenditures should be supported to ensure that they represent valid business expense. Charges on the District's AMEX statement alone are not sufficient supporting documentation.
- c) AMEX receipts for meals charged by the two Commissioners and the Business Manager on the days the Toronto conference was in session revealed that there were guests present at every meal. The meal receipts did not indicate the names or relationship of the guests present at meals and no business reason was indicated for the inclusion of the guests. The District's guidelines state that expenses that were not for official use should be reimbursed to the District. We saw no evidence that these expenses were reimbursed to the District.
 - i) The total charged for meals was \$2,001 (excluding \$95.54¹¹ charged for alcoholic beverages). We performed a reasonableness test based on an average cost per person

⁹ Discretionary charges include, but are not limited to, the cost of meals, transportation and out-of-pocket expenses while attending out-of-town conferences, food and refreshments at Board meetings, and donations or funeral flowers in memory of employees' relatives.

¹⁰ The individual's name was imprinted on the District's AMEX card and the District's name was imprinted on the general-use card. Only the general-use card was secured on the District's premises; the other cards were in the possession of each individual to whom the card was issued.

¹¹ Converted to US Dollars (C\$99.50).

Audit Findings and Recommendations

and determined that approximately \$971 of the total cost of \$2,001, could be attributed to the unnamed guests.

- ii) The documentation did not provide evidence that the cost of the unallowable alcoholic beverages charged on the District's AMEX Cards was reimbursed to the District because of a flaw in the method used by the Commissioners and the Business Manager to reimburse the District.
 - d) The Business Manager rented a Chevrolet Suburban for three days, at a cost of \$269 per day whereas the two Commissioners attending the same conference shared a Toyota Camry at a cost of \$80 per day. The total rental of the Suburban by the Business Manager cost the District \$561 more than the rental cost for two Commissioners.
2. A Commissioner was reimbursed \$79.94 for meals and gratuities paid during a New York State American Water Works Association symposium; this included a meal receipt for \$40 that was dated two days before the date of the symposium.
 3. All gratuities reimbursed to conference and meeting attendees during the audit period was \$214. Included in this amount were gratuities totaling \$193 which were reimbursed without supporting documentation.

The Business Manager indicated that the District adopted guidelines for allowable meeting and conference expenditures at its November 8, 2007 Board meeting as a result of the June 2007 Toronto conference. The guidelines covered:

1. travel-related expenditures requiring prior Board approval;
2. maximum allowable limits for meal and lodging expenses;
3. expenses that would not be paid by the District; and
4. documentation required.

However, the guidelines did not require the use of a standard business expense form for the reconciliation of meeting and conference expenditures.

Our review also noted the following examples of disbursements made by the District that were not considered a prudent use of taxpayer monies:

1. Disbursements totaling \$545 were made for food and refreshments at Board meetings and/or special district events. These included a \$153 reimbursement to a Commissioner for the cost of dinner at a special Board meeting held at a restaurant; no mention of this meeting was made in Board minutes prior to or after the date on the invoice, to document the proceedings of the meeting or any issues resolved. In addition, the Board approved a \$370 reimbursement to the Business Manager for food and refreshments at a "state of the district" address for the District employees and their families.
2. Nine expenditures, totaling \$1,234 were made for the following purposes:

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Type of Disbursement	Occurrences	Amount
Catering expenses for retirement party	2	\$ 587
Donations in memory of employees' relatives	3	240
Funeral sprays/baskets	3	340
Passport for employee to attend Toronto Conference	1	67
Total	9	\$ 1,234

One of the disbursements listed above (funeral spray of \$125) was purchased by one of the Commissioners with his District-issued AMEX card. Our review noted that the authority granted to the Commissioners to charge District purchases on their assigned AMEX cards is incompatible with their authority to review and approve vouchers and sign disbursement checks.

3. A disbursement of \$145 was paid for the renewal of membership dues with the Farmingdale Rotary Club. According to Opinion 2000-20 issued by the Office of the New York State Comptroller “local governments have implied authority to pay membership dues in certain associations if the governing board of the local government reasonably determines that the performance of its statutory functions will be enhanced by such membership and that it will receive sufficient benefits to that end to constitute fair consideration for the cost of membership.”¹² We found no documentation of the Board’s determination of the benefit that would be derived from this membership.
4. Disbursements of \$9,000 (\$3,000 each year) were made to the American Water Works Association Research Foundation. According to the May 15, 2007 Board minutes, the Board resolved “that the contribution to be made to the AWWA Research Foundation shall be the same as last year (\$3,000)”. These disbursements were incorrectly recorded as educational expenses in the general ledger.

The \$9,000 disbursed during the audit period to the AWWA Research Foundation was in addition to \$13,371 disbursed during the audit period to the American Water Works Association. Further, we found no evidence supporting the necessity, business purpose, or the appropriateness of the \$9,000 disbursed to the AWWA Research Foundation.
5. Our audit also noted other instances where supporting documentation for District purchases charged on the AMEX card were not attached to the voucher and the AMEX monthly statement, therefore we could not determine the validity of the business rationale for these expenditures.

Audit Recommendations:

The District should:

- a) ensure that the 2007 meeting and conference guidelines are followed by District management and the Commissioners, and enforced by the District;
- b) consider developing and implementing the use of a formal expense report that must be completed by each individual for each conference or outside meeting attended, or when

¹² <http://www.osc.state.ny.us/legal/2000/op2000-20.htm.l>.

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expenses have been incurred on behalf of the District. At a minimum, the expense report should be:

- i. designed to capture all expenses incurred by each individual and include how the expense was paid (i.e., by credit card, or out-of-pocket), what the expense represents and the business reason for the expense;
 - ii. signed and dated by the employee or Commissioner who incurred the expenses, to certify that the expenditures represent valid business expenses incurred on behalf of the District and in accordance with all District guidelines; and
 - iii. matched to the credit card invoices to ensure that all charges have been properly accounted for on the expense report;
- c) ensure that:
- i. all supporting documentation/receipts and expense reports are reviewed for accuracy, appropriate business justification, reasonableness and completion, and subsequently approved prior to reimbursement of any expenses; and
 - ii. only out-of-pocket expenses supported by a legitimate receipt and for valid business purposes are reimbursed to the employee;
- d) implement a process whereby any submission for reimbursement by the Business Manager, preferably as part of an expense report, is approved by the Superintendent or the Commissioners;
- e) ensure that expenses unrelated to the day-to-day operations of the District are strictly prohibited, including the use of District funds for food and beverages at Board meetings, parties and receptions;
- f) seek reimbursement for expenses that are unsupported or unrelated to the day-to-day operations of the District; and
- g) consider enhancing its credit card guidelines to restrict the use of the credit cards issued to the three Commissioners to expenses incurred for travel, conferences and seminars. Since the Commissioners review, approve vouchers and sign the checks, they should not have the ability to charge anything other than meeting, conference, travel and meal expenses.

Audit Finding (2):

Funding of Capital Projects through Over-budgeting of Operating Expenses

According to the Office of the New York State Comptroller's *Local Government Management Guide – Reserve Funds*, "Counties, cities, villages, towns, fire districts, and town or county sewer and water improvement districts may create both specific and type capital reserves."¹³ The New York State Comptroller's *Local Government Management Guide – Reserve Funds* also

¹³ Office of the New York State Comptroller, *Local Government Management Guide – Reserve Funds*, p.6, <http://www.osc.state.ny.us/localgov/pubs/lmg/reservefunds.pdf>

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states that “All reserve fund transactions should be transparent to the public.”¹⁴ The District established a Capital Fund, which is a reserve fund, to finance the cost of improvements to the water distribution system.

Our review of the original operating budget to actual expenditures for the audit period revealed that the District routinely budgeted more than the actual results of prior years, without supporting rationale. The District also routinely under-budgeted its revenues and did not appropriate any portion of its fund balance to the ensuing budget. Further, the District routinely transferred more than the budgeted amount to the Capital Fund. These practices resulted in a build-up of the District’s unreserved General Fund, as well as a lack of transparency to the public with regard to the cost of District’s operations and the manner in which the District funded the Capital Fund. To illustrate the latter, for the years 2006 through 2008, the District included in its annual operating budget a transfer of \$25,000 to its Capital Fund, but for the three years ending December 31, 2008, the District transferred a total of \$2,147,029¹⁵ from surplus in the General Fund to its Capital Fund. The amount transferred represented 27.63¹⁶ times the total amount budgeted for the Capital Fund for the three years.

Audit Recommendations:

The District should strive for transparency in developing its budget by more accurately estimating its operating revenues and expenditures based upon historical actual trends on a line item basis. This will result in a more accurate estimate of budgetary surplus that may be available to allocate to capital project expenditures in the operating budget, or result in a lower tax levy to local taxpayers.

For example, the District should decrease the budgeted amount for those line item expenditures that routinely require excess budgetary funds be transferred at the end of the year to those line items that have exceeded their budget. In addition, the District should increase anticipated revenues to include line items that routinely generate revenue. This practice will enable the District to revise its capital budgeting strategy by increasing the amount included in its operating budget for capital expenditures from \$25,000 to a more realistic amount.

Audit Finding (3):

Lack of Adherence to Budget or Budget Justification

The District did not have a formal control in place to prevent over-expenditure of budget lines as vouchers were paid. The Business Manager indicated that he reviewed actual to budgeted numbers on a quarterly basis with the Board, but there was no written documentation in the

¹⁴ Office of the New York State Comptroller, *Local Government Management Guide – Reserve Funds*, p.4, <http://www.osc.state.ny.us/localgov/pubs/lmg/reservefunds.pdf>

¹⁵ The amounts transferred from the General Fund to the Capital Fund in 2006, 2007 and 2008 were \$228,014, \$676,438, and \$1,242,577, respectively.

¹⁶ This amount represents the transfer of \$2,147,029 minus the budgeted amount for the 3 years of \$75,000 (\$25,000/year) divided by the amount budgeted for the 3 years.

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Board minutes to evidence this process. Based upon our discussions with the Business Manager, the District did not begin to focus its attention to line-by-line budget variances until late in the year, and we found no supporting documentation to evidence this review.

Our review noted that major purchases, such as vehicles, equipment and fuel, were not required to be cross-referenced to the budget to ensure adherence to budget constraints. For example, the District budgeted \$65,000 for the purchase of trucks in 2006. In February 2006, the District purchased a utility truck at a cost of \$58,657 and in October 2006, the District purchased a GMC dump truck for \$56,172. This resulted in the District spending \$49,829 more than the \$65,000 budgeted for this expenditure. We found no evidence to support the business rationale for the second vehicle purchase or Board authorization to exceed the budget.

Our review also noted the lack of business justification for budgeted expenditures. Vehicles purchased in 2007 and 2008 included a 2007 Dodge Durango, a 2008 Chevy Silverado and a 2009 Chevrolet Tahoe costing \$20,865, \$23,338 and \$34,639, respectively. Although the purchases did not exceed the budgeted amount, we found no evidence explaining the business rationale for the purchases.

Audit Recommendations:

The District should:

- a) implement budgetary control procedures to ensure that the budget is reviewed prior to the authorization of significant line item disbursements, such as the purchase of vehicles, and those decisions to exceed the budget are documented and approved by the Board prior to making the purchase;
- b) document the quarterly review of budget expenses to actual expenses that is performed by the Business Manager. The Board should also consider incorporating its review, including in the major points of discussion, rationale and appropriateness of significant over budget conditions, in its Board minutes; and
- c) ensure that all large fixed asset purchases, including the purchase of vehicles, are fully documented and explained, including the business rationale, and that a cost/benefit analysis be performed and documented. This information should be retained and included with the Board minutes, budget documents or other supporting documentation.

Audit Finding (4):

District Elections: Employment of Family Members

In 2006, 2007 and 2008, the District hired election workers who were related to the Commissioners seeking re-election. The District is governed by a Board consisting of three elected Commissioners, who serve three-year terms. District elections take place in December and are administered pursuant to Article 13 of New York State Town Law.¹⁷ The voter turnout

¹⁷ N.Y. Town L. §§ 212, 215 (McKinney 2009).

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for the 2007 and 2008 elections was 1,218 and 750 votes, respectively. As of 2009, there were 12,253 residential properties in the District¹⁸.

The District hires approximately 15 individuals each year to assist with the election as “Election Workers”, “Election Inspectors” and/or “Checkers of Maps”. For the 2006, 2007 and 2008 elections, a total of four relatives of the incumbent Commissioners and managers (two each year), were hired to work as inspectors. In addition to overseeing the voting activities, these relatives also signed the Absentee Ballots certification. As the District Commissioners and management have an interest in the outcome of the election conducted by the election workers, the hiring of related parties appears to present a conflict of interest.

Audit Recommendation:

The District should ensure that all election workers are impartial and independent of the District to avoid even the appearance of a conflict of interest.

Audit Finding (5):

Disparate Treatment of Current and Post-Separation Benefits

Life Insurance

The District has insured the lives of District Commissioners and managers. On January 8, 2008, the Board resolved to pay 100% of the premiums for any life insurance policy that is in place at the time of separation for its Commissioners who, at the time of separation, have served nine consecutive years. During the audit period, the District paid \$62,107 in life insurance premiums. The District provided us with a representative life insurance policy with The Equitable Life Assurance Society of the U.S. for the Business Manager. We were advised that the District did not have original copies of the other policies available because they were in the insured employees’ possession. We noted that the policy, which was issued October 6, 1998, is a flexible premium variable life policy with a face amount of insurance of \$100,000. Although the beneficiary information was redacted, we were informed by the District that it was not the beneficiary on these policies.

To the extent that life insurance was obtained to fund a payment to beneficiaries, it violated New York State Civil Service Law §201(4) and Retirement and Social Security Law §470.

We noted that per the January 8, 2008 Board minutes, the Board resolved that all District employees, including all employees covered by Civil Service Employees Association (“CSEA”) Local 1000, were eligible to be covered by CSEA Membership & Group Life Insurance, but must pay the full cost, resulting in disparate treatment of District employees. New York State has authorized special districts to purchase group life insurance for their employees.¹⁹ There is no statutory authorization for individual life insurance policies, and the State Comptroller has stated, before a 2007 change of law authorizing the purchase of group policies by special

¹⁸ Source: Nassau County Department of Assessment 2009 Total Assessed Valuations and Parcel Counts Schedule.

¹⁹ N.Y. Gen. Mun. L. § 93 (McKinney 2010).

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districts, that special districts could not purchase individual life insurance policies for employees.²⁰ Life insurance is provided to the commissioners and managers in addition to the death benefit provided by the New York State and Local Retirement System (“NYSLRS”). We noted that the District’s written “rules” covering employment terms and benefits for management employees, such as health insurance and leave entitlements, do not address life insurance. With the exception of the January 8, 2008 board resolution covering life insurance for commissioners separating from service, no written guidelines for life insurance were noted at the District.

Health Insurance

The District provides employees with health insurance through the New York State Health Insurance Plan (“NYSHIP”). During the audit period, the District expended \$897,443 for health insurance costs. District Commissioners and managers receive fully paid health insurance, while employees covered by the District’s collective bargaining agreement with the CSEA Local 1000 contribute 10% toward the payment of premiums for health insurance coverage (effective January 1, 2004). Managers are eligible for fully paid health insurance upon retirement if they have attained the age of 50 and have been employed by the District for ten years. CSEA Local 1000 retirees are eligible for coverage at the age of 55 after 20 years of employment at the District; they must contribute 10% toward the cost of the premiums. Under NYSHIP rules, in order for an employee to continue health coverage in retirement, the employee has to be eligible to retire as a member of a NYS retirement system. An employee would not be eligible to retire until age 55. An employer cannot change the age eligibility requirement for retirement.

In 2008, the Board resolved to provide lifetime individual and family (spouse only) fully paid health and dental insurance coverage to Commissioners upon their separation from the District after nine consecutive years of service (three terms), once they reach the age of 50. This measure was made effective retroactively to January 1, 2004. By making this benefit retroactive, it ensures that Commissioners with prior service years will qualify for this benefit.

Audit Recommendations:

The District should:

- a) with its Legal Counsel, review the provision of the life insurance provided to current and prior Commissioners and managers to ensure the legality, appropriateness and necessity of the practice:
 - i. If the Board determines the practice is inappropriate, the costs should be recovered from the employees; or
 - ii. If the practice is determined to be appropriate, the practice should be documented in writing, including any legal opinions of the District’s Counsel;
- b) consider requiring the District’s commissioners and managers to bear a portion of their health benefit costs both while working and in retirement;
- c) maintain copies of all life insurance policies; and

²⁰ 1993 Op. State Comptroller, File No. 0591147 (Mar. 23, 1993).

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- d) ensure that its policy regarding health insurance coverage for managers in retirement is consistent with NYSHIP rules and regulations.

Audit Finding (6):

Lack of Adequate Support for Commissioner Per Diem Payments for Attending External Meetings and Conferences

Commissioner Per Diems

In January 2006, the Board adopted the Town of Oyster Bay's per diem rate of \$100 for its Commissioners.

The District's three elected Commissioners serve on a part-time basis, and are paid \$100 for attending each District-held or external meeting and conference, or if they are attending to District business. In 2007, one of the Commissioners began to refuse remuneration. During the audit period, the Commissioners were compensated a total of \$78,620 (\$31,480, \$28,300 and \$18,840 for 2006, 2007 and 2008, respectively).

We noted the following:

- During the audit period, Board minutes indicated that the District's Commissioners, managers and employees were authorized to attend 73 external meetings and conferences. However, we found no evidence in subsequent Board minutes documenting the Commissioners' attendance at the external meetings or conferences or what was discussed at each external meeting or conference. In addition, there was no entry in the logbook (used by the District to track the Commissioner's attendance for purposes of determining their per diem payments) to record their attendance at external meetings or conferences. The Office of the New York State Comptroller's Opinion 90-49 states that "... where a town board has set a per diem compensation for district commissioners pursuant to section 214 of the Town Law, the commissioners are entitled to receive the full per diem amount for each day on which they actually and necessarily render services on behalf of the district, unless the services are nominal, unsubstantial, trivial or inappreciable."²¹ Without verification of the Commissioners' attendance at external meetings or conferences, we could not ensure that the District had complied with the New York State Comptroller's Opinion.
- The District's procedure for paying its Commissioners was via an email from the Business Manager to the Office Manager. The email only indicated the number of per diems for which each Commissioner would be paid.

Managerial Employees' Certification of Time Worked

Non-management employees of the District are required to use the District's PayChoice swipe system to record their starting and ending work times each day. Management employees,

²¹ 1990 Op. State Comptroller, No. 90-49 (Dec. 20, 1990); see also N.Y. Town L. § 216 (McKinney 2007) (during the audit period the daily rate may not exceed \$80 per day; the statutory maximum has since been increased to \$100 per day)..

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including the District's Business Manager, Office Manager, Superintendent and Foreman, are not required to record starting and ending times or certify their hours worked. Management payroll is processed on an exception basis, which means that only absences are documented.

Audit Recommendations:

The District should require:

- a) Commissioners and management employees to submit evidence of their attendance at all offsite conferences, such as Certificates of Attendance that may be issued to attendees. This will also assist in supporting Commissioners' compensation. Such evidence should also be retained with the voucher package as support for the cost of the meetings or conferences attended. Further, upon return from a meeting or conference, a brief report on the proceedings should be submitted to the Board by the attendees and included in the Board minutes; and
- b) all management employees to record their time daily and certify their time at least each pay period, in order to comply with the Office of the New York State Comptroller's guidelines.

Audit Finding (7):

Leave Policy: Disparate Treatment of Managerial Employees

Non-managerial employees at the District are represented by CSEA Local 1000. A memorandum of agreement between the District and Local 1000 covers their terms of employment, including leave benefits, for the period January 1, 2007 through December 31, 2010. Leave benefits for management employees, including the Business Manager, Office Manager, Superintendent, Foreman and Assistant Foreman are set forth in an undated extract from District Board Minutes which details managerial employees' benefits. Our review of the leave benefits provided to managerial employees revealed a major disparity with those provided to non-managerial employees, resulting in the payment of extraordinary amounts to managerial employees upon termination of service. For example:

Sick Leave

Managerial employees are entitled to accumulate a maximum of 260 days whereas non-managerial employee may accumulate only 180 days. Upon retirement or separation, managerial employees or their beneficiaries will be reimbursed at 100% for any unused sick leave balance provided that the employee has attained 50 years of age and has been employed by the District for the last ten years prior to retirement. However, non-managerial employees, upon retirement, will be reimbursed for only up to 60 days if the employee has attained the age of 55 years and has been employed by the District for the last ten years prior to retirement.

Vacation Leave

Managerial employees are entitled to five days of vacation leave after six months of continuous service, 14 days after twelve months of continuous service, and one additional day for each

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subsequent year of service, up to a maximum of 25 vacation days per year. Vacation leave accumulates from one employment year to the next, and a maximum number of vacation days had not been established. Upon separation, managers are paid 100% of their unused vacation leave. In contrast, the District's Local 1000 non-managerial employees may earn a maximum of 25 days of vacation leave, but must use their vacation time each year.

In 2007, the District's former Superintendent was paid \$117,728 in termination pay upon his retirement after 33 years of service with the District. The payment represented 54 accumulated vacation days and 260 sick days. In contrast, we note that the District's non-management employees are only paid for a maximum of 60 days of sick leave upon retirement, and may not accrue their vacation leave.

Audit Recommendation:

The Board should reevaluate the terms of the Board Minutes extract covering the leave benefits of managerial employees. The extraordinary leave benefits provided to managers, 100% reimbursement of accrued sick leave upon separation from service and the absence of a requirement for a maximum number of vacation days that may be accumulated, should be reconsidered.

Audit Finding (8):

Weaknesses in Internal Controls over Cash Disbursements

Our review of the District's cash disbursements process noted several weaknesses that may result in improper or unauthorized payments being made. Internal controls over the voucher review and payment process are essential for determining that payments to vendors represent valid business expenses, are properly supported by appropriate documentation, and are approved in accordance with the District's bylaws and General Municipal Law. Strong internal controls reduce the likelihood that errors and irregularities may occur and go undetected, and ensure that District assets are protected from the risk of fraud, waste and mismanagement.²²

The District's total cash disbursements (excluding salaries and fringe benefits) for the years ended December 31, 2006, 2007 and 2008, were \$2,368,055, \$2,092,607 and \$2,593,362, respectively.

We reviewed 299 voucher packages paid between 2006 and 2008, totaling \$1,399,806 and representing 18% of total disbursements for the period. Our review was conducted to determine that payments to the vendors represented valid business expenses, which were properly reviewed and accompanied by complete supporting documentation at the time the vouchers were approved

²² As recommended by the N. Y. S. Comptroller's Office, *Local Government Management Guide Internal Controls*, pp. 1- 2.

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for payment by the Business Manager and Commissioners. Our review revealed the following internal control weaknesses over the cash disbursements process:

- Checks were printed and signed (using a facsimile plate) prior to the review and approval of the vouchers and their supporting documentation by the Commissioners.
- The Superintendent and Business Manager's review and approval of the vouchers took place after the vouchers were posted to the general ledger account. Therefore, any posting errors or other irregularities, such as incorrect allocations, would result in the need for the accounting records to be corrected. There were 19 occurrences of posting errors noted during our testing of disbursements.
- Updates and additions to the Master Vendor File are not reviewed by a supervisor to ensure that the data was entered correctly and that the vendor represented a legitimate business transaction. Our review of the Vendor Master File revealed that some vendors had been entered more than once and the error was not detected by the District.

Several instances were noted where disbursements were not adequately supported, including:

- Of 21 payment vouchers examined for equipment, tool parts, and supplies, two vouchers totaling \$7,065 did not have documentation that fully supported how the amount charged was calculated. In one instance, the District was billed \$5,665 for repairs of which \$4,144 was charged for labor; however, we found no evidence in the voucher documentation that the District received a quote from the vendor that would enable them to verify that the amount charged for the repair was reasonable. A payment of \$423 to Oakstone Wellness Publication for employee health and safety newsletters included a \$141 shipping and handling charge, which was not included on the vendor's invoice. However, the shipping charges were included on the voucher prepared by the District. After this exception was discussed with the District's management, an invoice for the shipping and handling charges was obtained from the vendor.

Audit Recommendations:

The District should ensure that:

- a) the Superintendent and Business Manager review and approve vouchers prior to entry into the general ledger. Their review should include a determination of the appropriateness of the Account Clerk's designation of the general ledger account to be charged, and that all vouchers are properly supported;
- b) Commissioners review and approve vouchers prior to check signing;
- c) a supervisor approves new vendors or changes made to the Master Vendor File. A report should be generated to document changes and provide an audit trail of all changes; and
- d) a review of the current Master Vendor list is performed and the necessary steps are taken to correct duplicates and errors. The results of the review, including the duplicates or errors identified and the corrective actions taken, should be documented and retained, and formally reviewed and approved. Once completed, this practice should be repeated on a periodic basis to maintain the integrity of the data.

Audit Finding (9):

Incomplete or Inadequate Written Policies and Procedures

Written policies and procedures are an effective internal control tool to provide guidance and ensure the reliability of accounting data and financial reporting. Policies and procedures should be issued to employees to ensure that they are aware of and comply with policies, and to provide that the District operates efficiently in the event of a key employee's absence from work.

As defined by the New York State Comptroller's *Local Government Management Guide Internal Controls*²³, written policies and procedures should include details of significant activities and unique issues, employee responsibilities, limits to authority, performance standards, control procedures and reporting relationships. While we noted that Board minutes included the District's guidelines for various procedures, no separate document consolidating these guidelines existed or was disseminated to the employees. Our audit noted that the District did not have a manual that contained written policies and procedures for the following significant activities:

- the District's day-to-day accounting procedures that detail the roles and responsibilities associated with recording and maintaining transactions;
- the processing and monitoring of accounts receivable or the processing of accounts payable;
- fixed asset accounting and reporting; the maintenance and reconciliation of bank accounts;
- budgetary reviews to assist the District in effectively managing its expenditures on a line item basis and act as a helpful predictor for estimating future budgetary spending;
- petty cash; and
- the election process.

In addition, the District's purchasing and procurement guidelines did not include specific prohibitions on the splitting of purchase orders to avoid higher levels of approval or competitive bidding requirements.²⁴ Our audit did not note any occurrence of this practice.

Audit Recommendations:

The District and Board should develop a comprehensive operating manual which includes:

- a) written policies and procedures for the processes noted above;
- b) formalized guidelines and policies documented in Board Minutes.

²³ N.Y.S Comptroller's Office, *Local Government Management Guide Internal Controls*, p. 4
http://www.osc.state.ny.us/localgov/pubs/lmgm/internal_controls.pdf

²⁴ This practice is where an entity submits multiple purchase orders for the same commodity or service, in order to circumvent the approval or competitive bidding process.

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The manual should be:

- i. disseminated to all employees;
- ii. retained for reference purposes by the District's employees and outside regulatory and auditing bodies;
- iii. dated to reflect when it was established and updated, and when there has been a significant change in policy or regulatory requirements; and
- iv. reviewed at least annually, to ensure it is maintained current.

Audit Finding (10):

Inadequate Segregation of Duties

An effective internal control system requires the separation of duties so that no one single employee has control of, or performs, all phases of an accounting function. Concentrating key duties, such as recording cash receipts and cash disbursements, preparing bank reconciliations and maintaining the general ledger with one individual weakens internal controls and increases the risk that errors or irregularities can occur and be undetected and uncorrected.

The District's administrative staff consists of eight employees, the Superintendent, the Business Manager, the Office Manager, the Foreman, the Principal Account Clerk ("PAC"), two Account Clerks and a Clerk Typist. Our review of the District's internal controls revealed that the District has concentrated certain key duties with single individuals. For example:

- The PAC:
 - prepared the bank reconciliations for all the District's bank accounts;
 - assisted the Business Manager with the transfer of District funds between banks and the purchase or renewal of Certificates of Deposit ("CDs");
 - prepared investment journal entries and a monthly spreadsheet of investment transactions;
 - performed the accounts payable functions, such as, adding new vendors to the Master Vendor File;
 - acted as a back-up for the revenue receipt functions when needed due to employees' absences;
 - prepared the payroll; and
 - had access to the accounting system.

Best practice, however, would be for an employee not involved in accounts payable or payroll to prepare bank reconciliations, because the lack of segregation of these duties results in an increased risk of loss through error or fraud. This exception was noted in the external auditor's management report to the District for the year-ending December 31, 2008.

- The Business Manager:

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- was responsible for general oversight of controller functions;
- prepared the Board minutes;
- was the only employee:
 - with the authority to execute the purchase and redemption of CDs and the transfer of District funds among bank accounts;
 - who received e-mails or calls from the bank(s) to approve bank transfers for which the bank requested confirmation;
- acted as the District's fixed asset custodian. He maintains the records detailing the District's fixed asset acquisitions and dispositions during the year that are provided to the external auditors for preparation of the annual financial statements; and
- designated as the key District contact to interface and oversee the work of the external auditor.

The concentration of these duties with the Business Manager increases the risk that errors may occur and go undetected 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."²⁵ We found no evidence that the District had formally and adequately increased oversight as a mitigating control to the lack of segregation of duties.

Audit Recommendations:

The District should segregate incompatible accounting functions by identifying the functions that can be reassigned among employees. If this cannot be accomplished due to work responsibilities and staff size, a comprehensive and formal supervisory review of the employees' work should be implemented.

Audit Finding (11):

Lack of Written Evidence for Board Oversight of Investment Activities

The District invests in Certificates of Deposit (CDs) with North Fork Bank, Commerce Bank, State Bank of Long Island and Citibank. The CDs are opened on a 28-day cycle, with maturity dates "laddered" so that the CDs mature weekly on Wednesdays, in order to ensure the availability of operating funds. During the audit period, the District earned \$ 472,087 in interest from its investments in the General, Reserve for Repair, and Capital Project Funds. As of December 31, 2008, outstanding CDs in all three funds totaled \$2,496,355. We noted the following during our review of the District's investment activities:

²⁵ N.Y.S. Comptroller's Office, *Local Government Management Guide Internal Controls*, p. 8.
http://www.osc.state.ny.us/localgov/pubs/lgmg/internal_controls.pdf

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- The District’s investment policy did not include guidance on how its investment transactions should be recorded and tracked.
- During regular Board meetings, Commissioners were advised by the Business Manager of the maturing CDs and whether, based on cash flow needs, to redeem them, rollover the funds, or adjust the amount of District funds being invested. The Commissioners were not provided with written analyses or schedules that tracked CD purchases, rollovers and redemptions. Consequently, documentation did not exist to evidence the Commissioners’ review of the District’s investment activities. Beginning in December 2007, the newly hired PAC created a Microsoft Excel spreadsheet to assist her in preparing the investment related journal entries. However, this spreadsheet was for her use only; it was not considered a formal part of the process and was not subject to a supervisory review.
- The Business Manager was authorized to execute investment transactions; a second signature was not required on the CD purchase and redemption forms sent to the bank.

Audit Recommendations:

The District should:

- a) revise its investment policy to include operational guidance on how its investment transactions should be documented and tracked. Consideration should be given to incorporating the spreadsheet prepared by the PAC as a formal part of the process, which would also require that the spreadsheet be formally reviewed and approved by the Business Manager and the Board;
- b) consider increasing the number of signatories required for investment transactions to a minimum of the Business Manager and one Commissioner ; and
- c) require that a senior manager, such as the Office Manager, review the investment journal entries prepared by the PAC to ensure that the journal entries properly reflect the transactions approved by the Business Manager and the Board. This review should be evidenced.

Audit Finding (12):

Inadequate Protocol for Board Minutes

The Office of the New York State Comptroller has observed, “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. 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.”²⁶ Board Minutes are prepared to formalize the governing board’s actions and decisions, and frequently serve as the key authoritative documentation for

²⁶ N.Y.S. Comptroller’s Office, *Local Government Management Guide Fiscal Oversight Responsibilities*, p. 1. http://www.osc.state.ny.us/localgov/pubs/lgmg/fiscal_oversight.pdf

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the financial activities of the District. The contents of Board minutes can also provide insight into the level of Board involvement and the nature of the oversight it provides.

Our review of the Board's oversight activities included reviewing the minutes of all Board meetings held during the period January 1, 2006 through September 30, 2008. We also reviewed the Board's guidelines, procedures and practices. We noted the following exceptions:

- The District's Business Manager was responsible for preparing the Board minutes; however, he did not perform this task in a timely manner which resulted in a lack of transparency as to the operations of the District. For example:
 - The 2008 Board minutes from January through November were not completed when we commenced audit fieldwork in December 2008.
 - The October, November and December 2008 minutes were still not prepared as of the end of our fieldwork in August 2009. As a result of the delay, Board minutes did not exist to support the transfer of \$1.2 million from the General Fund to the Capital Project Fund at the end of 2008, although the District's 2008 audited financial statements stated that the transfers were "to pay for capital costs and for the purpose of increasing the amount of reserve set aside for future capital projects".
- Board minutes:
 - were not formally adopted at the subsequent meeting. According to the New York State Department of State's Guide to Conducting Public Meetings and Hearings, a reading of the minutes of the previous meeting, amendment and approval should take place at each board meeting;²⁷
 - only indicated the dollar amount and the check sequence for disbursements. A copy of the warrant was not attached to the minutes to provide the supporting details;
 - did not reflect all the District's disbursements. The dollar amount and sequence of check numbers issued between Board meeting dates were not included in the minutes of the next Board meeting. As a result, the Board has no way of verifying that the check sequence was fully accounted for and that the Board was aware of all disbursements. Consequently, all checks and disbursements were not formally adopted as part of the records; and
 - pages were not numbered, which may have resulted in lost or misplaced pages.

Audit Recommendations:

The District should ensure that:

- a) draft Board minutes are prepared in a timely manner so they may be reviewed and approved promptly at the next Board meeting. The Board should consider reassigning

²⁷ N. Y. S. Department of State, *Conducting Public Meeting & Public Hearings* (James A. Coon Local Government Technical Series), available at <http://www.dos.state.ny.us/lgss/pdfs/public.pdf>.

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the responsibility of preparing the minutes to an individual other than the Business Manager, due to his many responsibilities and duties;

- b) at each Board meeting, the minutes of the previous meeting are read, amended if necessary, and formally approved. Additionally, all pages of the Board minutes should be numbered, to avoid the loss or misplacement of a page; and
- c) Board minutes identify all checks disbursed including all issued between meetings. Individual check numbers, dates and amounts should be listed in the Board minutes or on a separate warrant, which can be attached to the minutes.

Audit Finding (13)

Role of External Audit Firm

The District has retained Albrecht, Viggiano, Zureck & Co., PC, as its external audit firm for the past 21 years. Annual payments to the audit firm for the period 2006, 2007 and 2008 were \$36,495, \$40,475 and \$44,938, respectively, for a total of \$121,908.

The District relied heavily on its external firm to prepare and explain journal entries and budget adjustments, determine accounts payable at year-end, close the books, and draft the interim and year-end financial statements and cash flow statements. It also relied on the audit firm to provide fixed asset services, including the generation of fixed asset records based on a list of additions and deletions supplied by the District, and offering guidance to the District in complying with fixed asset regulations, such as Governmental Accounting Standards Board Statement No. 34. The audit firm's engagement letter refers to the additional non-attest services, and identified the District's Business Manager as the key contact to interface with and oversee the work of the external auditor. However, due to the small size of the District's Administrative staff, the Business Manager performed many roles, limiting his availability to effectively oversee the external auditor and preserve the external auditor's independence. We also noted that the District does not have a policy to rotate its auditor.

Audit Recommendations:

We suggest that the District hire an individual, perhaps on a part-time basis, with the necessary accounting expertise to prepare the year-end journal entries, draft the financial statements and prepare fixed assets records. This will allow the external auditors to limit their role to the audit function. We also encourage the Commissioners to adopt a policy for rotating external auditors every 5 to 6 years, as many municipalities and special districts now do, consistent with the Office of the New York State Comptroller's guidelines on professional services competitive bidding policies.²⁸

²⁸ N.Y.S. Comptroller's Office, *Local Government Management Guide, Seeking Competition in Procurement*, p. 15,
Limited Financial Review of the South Farmingdale Water District

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Audit Finding (14):

No Physical Inspection of Fixed Assets

Detailed property records are not periodically checked by physical inspection by anyone in the District.

The District's fixed assets were comprised of land, buildings, construction in progress, improvements, wells, water tanks and structures, machinery and equipment, office furniture and equipment, vehicles, and water mains. Fixed assets were recorded at historical cost and depreciation was calculated on a straight-line basis, with the estimated useful lives of fixed assets ranging from 5 years for office furniture and equipment to 50 years for water mains. As of December 31, 2008, the District's land and construction in progress were valued at \$344,620, and depreciable fixed assets were valued at \$8,179,950, net of depreciation. Our review noted the physical existence and location of the District's fixed assets, as well as the accuracy of the detail records, were not periodically verified by physical inspection of the assets.

Audit Recommendations:

The District should perform periodic physical inventories of its fixed assets and compare the information on the asset to the detail records. The necessary steps should be taken to investigate and resolve any discrepancies noted, missing assets as well as assets that do not appear in the District's records.

Audit Finding (15):

Miscellaneous Findings

There were several miscellaneous findings noted during our audit.

Unreconciled Accounts Receivable Ledgers

During the audit period, the District did not reconcile its subsidiary records for accounts receivable to the general ledger control account, and therefore, the subsidiary ledger did not reconcile to the trial balance. This exception was noted in the external auditor's management letter to the District for the year-ending December 31, 2008.

Audit Recommendations:

The District should reconcile the accounts receivable subsidiary ledger to the general ledger on a monthly basis to ensure the accuracy of all financial reports, including interim reports.

Over-reliance on Engineering Consultants

Holzmacher, Mclendon & Murrell, P.C. ("H2M Group") has acted as consulting engineers for the District for 40 years. In 2006, 2007 and 2008, payments to the H2M Group were \$217,298, \$216,380 and \$318,197 respectively, for a total of \$751,875. The H2M Group advised the District on the repair, upkeep, construction and inspection of District facilities, performed

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laboratory services for treatment and testing of the District's storage and distribution facilities, performed or monitored the work it suggested to the District, and reported to the District on the status of engineering projects. Compensating controls did not exist to mitigate the inherent risk associated with H2M Group's economic interest in the advice it provides to the District. Further, we found no evidence that the District has the necessary expertise to effectively monitor H2M's performance. As a result, unnecessary District spending may occur and not be detected in a timely manner.

For example, in June 2006, the District engaged the services of a contractor, Fenley & Nicol Environmental Inc., to install a gasoline storage tank and a dispensing station at Plant No.1. The contract stated that de-watering would not be performed unless deemed necessary by the H2M Group. Our review of the discussion that took place between the Board and the H2M Group at the April 10, 2007 Board meeting revealed that the contractor mobilized a crew to perform de-watering that the H2M Group told the Board, did not need to be done. Consequently, the District incurred unnecessary expenses of 50% of the allowance for the de-watering because the contractor had mobilized his crew. It was unclear, based upon our review of the Board minutes, whether the H2M Group was lax in performing its oversight function.

Audit Recommendations:

The District should consider:

- a) separating the functions of engineering advisor and monitoring engineer, for all current and future projects to avoid any appearance of a conflict of interest. The District should also consider developing a plan to effectively evaluate both functions; and
- b) periodically soliciting Request for Proposals (RFPs) for engineering advisory services and/or engineering consulting services at reasonable intervals, to ensure that they are getting the best service for taxpayers dollars.

Take Home Vehicles

The District's Business Manager, Office Manager, Superintendent, and Foreman are assigned District vehicles for business purposes and to take home. We did not find evidence to support the business rationale or need for take home use for each vehicle.

Audit Recommendations:

The District should reevaluate the need for each take home vehicle. If the District determines that the practice continues to be warranted, then it should formally document the business rationale and need for each vehicle to be taken home and the corresponding benefit to the District.

Diesel Fuel Internal Control Weaknesses

During the audit period, the District purchased \$4,373 of diesel fuel for use in the District's heavy-duty vehicles and equipment (e.g., tractors and utility trucks). The District's diesel fuel was stored in an aboveground 250-gallon tank, with a valve that displayed the fuel volume and a pump to dispense the fuel. Although the District kept a fuel log of gallons pumped and the date

Audit Findings and Recommendations

of deliveries, it did not require reconciliation be performed of gallons purchased and gallons pumped, to gallons in the tank, to help ensure that unreasonable differences are identified and investigated.

Audit Recommendations:

The District should develop a formal process to periodically reconcile the gallons of fuel delivered and the gallons pumped with the gallons remaining in the tank. The reconciliation should be documented and differences should be investigated and resolved. The reconciliation should be reviewed and evidenced with the reviewer's signature and date.

Internal Control Deficiencies of Petty Cash

Petty cash expenditures during the audit period totaled \$1,098. Primary custodial responsibility is vested in the Office Manager. The following internal control weaknesses were noted:

- the cash box used for making change for customers is not adequately secured during the work day, and all administrative employees can make change;
- the petty cash fund is counted only by the Office Manager: he also reimburses his own petty cash expenditures, and on occasion, is both the payee and the authorizing manager for a transaction;
- employees do not sign the petty cash log to acknowledge receipt of cash; and
- the replenishment process does not include a formal reconciliation of the fund.

Audit Recommendations:

The District should:

- a) improve security of the cash box during the workday;
- b) improve segregation of duties over the petty cash fund by assigning an employee other than the Office Manager to periodically count the fund; consideration should also be given requiring the signature of another manager when the Office Manager reimburses his own petty cash expenditures;
- c) require all employees to sign the petty cash log to evidence reimbursement for his/her expenditure; and
- d) require that the replenishment process include a formal reconciliation of the fund.

Password Security Weakness

The District did not require that employees' computer passwords be changed on a periodic basis. Good internal control practices dictate that passwords be required to be changed regularly.

Audit Findings and Recommendations

Audit Recommendation:

The District should establish a policy that requires employees to change their computer passwords on a periodic basis, every 30 to 90 days, consistent with the Office of the New York State Comptroller's guidelines.²⁹

²⁹ N.Y.S. Comptroller's Office, *Security Over Local Government Computer Systems*, 2004-MR-2, January 2004, p. 14, available at, <http://www.osc.state.ny/localgov/audits/swr/2004mr2.pdf>.

**Appendix – South Farmingdale Water District’s Response and Auditor’s Follow-up
Response**

SOUTH FARMINGDALE WATER DISTRICT

Response to the Limited Financial Review dated October 28, 2010 by the
Office of the Nassau County Comptroller

January 13, 2011

Appendix – South Farmingdale Water District’s Response and Auditor’s Follow-up Response

The Board of Commissioners of the South Farmingdale Water District respectfully submits this response to the Findings and Recommendations of the Audit Report.

The Board and staff of the South Farmingdale Water District fully cooperated with the Auditor’s staff. While the Auditor and his staff spent a multitude of hours over the course of two years reviewing the District’s files and documents, we note that the report makes (1) no finding that any funds are missing, (2) no allegation of fraud, (3) no hint of misappropriation and (4) just as important as all of the above, that none of the District’s assets were wasted.

The District concurs with many of the Auditor’s recommendations for enhanced financial performance. The District agrees that improvements can and should be made, especially with regard to increased documentation of District activities. The District will implement better documentation of the Board’s decisions and a quarterly review of the budget in the minutes. Further, more details regarding authorization for purchasing large fixed assets will be documented in the minutes of the Board meetings.

Some of the Auditor’s recommendations were actually implemented by the District prior to the audit report. For example, in 2007, the District examined its expenditures at the American Water Works Association conference and determined that the Districts’ guidelines required revisions. As a result of this examination, in November 2007 the District substantially revised and implemented much more stringent guidelines for conferences, travel etc. The District has adhered to and complied with these new guidelines. As the report indicates, the Auditor approved the updated guidelines and notes that the District has not deviated from them to date.

Moving beyond the policy changes in 2007, there are several instances where the report’s findings are factually or legally incorrect, or make subjective conclusions without basis. Consequently, they should be removed from the report.

For example, in Audit Finding #6, the Auditor failed to recognize that the District is in full compliance with the New York State Comptroller’s “per diem” guidelines and the Auditor cites no legal authority for its criticism. In certain instances, the report’s findings are inaccurate or incomplete. Irrespective of these shortcomings, however, the District still agrees with the Auditor’s recommendations that several changes to policy or procedure would be appropriate. For example, in the discussion of the District’s credit card procedures, Audit Findings #1 failed to acknowledge that the District’s policies include provisions for documentation, review, and approval of all expenditures. Nevertheless, the District still agrees with the recommendations that the credit card policy be amended with regard to the Board members’ use.

Improvements can always be made. The Board will continue working to improve business practices so that the interests of the residents and consumers of the District are well served.

Auditor’s Follow-up Response:

The last sentence in the fourth paragraph above states, “As the report indicates, the Auditor approved the updated guidelines and notes that the District has not deviated from them to date.” To clarify, the audit report states “According to the District’s management, as a result of the June 2007 Toronto conference attended by the Commissioners and the Business Manager, the District adopted guidelines for allowable meeting and conference expenditures at its November 8, 2007 Board meeting.” The audit report does not state that the auditors approved these guidelines or concluded that “the District has not deviated from them to date.” The auditors did not perform a test of all transaction subsequent to November 8, 2007 to arrive at any such conclusion.

Appendix – South Farmingdale Water District’s Response and Auditor’s Follow-up Response

Paragraph 5 above states “there are several instances where the report’s findings are factually or legally incorrect, or make subjective conclusions without basis. Consequently, they should be removed from the report” and paragraphs, 6 and 7 provide examples. The auditor’s follow-up responses address these instances as they appear in the District’s detailed response.

Audit Finding # 1 Conference Expenditures

Following the 2007 American Water Works Association Conference, the District, on its own initiative, examined the expenses of the conference and the District’s guidelines for attending conferences. The District determined at that time that the guidelines required clarification and revision. As a result, in November 2007, the District adopted new and more stringent guidelines. These new guidelines already incorporate most of the Audit Recommendations.

Most importantly, the District has adhered to the more stringent guidelines. The Audit makes no finding that the District violated its own guidelines since their adoption in November 2007.

The Audit Findings criticize the commissioners for arriving one day prior to the AWWA conference. Allowing a day for travel is appropriate and not unreasonable. Contrary to the Audit Findings, all alcohol expenditures from the conference were reimbursed to the District in accordance with the NYS Comptroller’s guidelines.

In 2008 and 2009, respectively (and prior to the issuance of the Audit Report), the District examined payment for retirement farewell lunches and funeral/ bereavement flowers for employees. As a result of those examinations, the District terminated these expenses.

The District’s membership in the Farmingdale Rotary Club enables the District to communicate and interact with the Farmingdale business and professional community. The Rotary Club meetings provide a forum in which the District can educate the community about issues affecting the District, and also for the community to express its concerns to the District. Membership in these types of business or community organizations was approved by the New York State Comptroller 2000-20 (copy enclosed) citing 1982 Opns. St. Comp. No. 82-38 and 1979 Opns. St. Comp. No. 79-71- A (membership in local Chamber of Commerce).

Similarly, research and development by the American Water Works Association and American Water Works Association Research Foundation benefits the District and its consumers, as water quality and water safety are paramount. The District believes that participation in the AWWA and AWWARF is proper.

In 2009, prior to the Audit Report, the District developed and implemented the use of a formal expense report. Individual employees itemize all expenses, whether charged on the Amex card or paid out-of-pocket, and they must attach receipts to the report. The expense report is cross referenced with the Amex bill to ensure accuracy.

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The Audit Report implies that the District does not monitor the use of the credit cards. In fact, a review of the District’s credit card policy, procurement policy, and annual reorganization minutes demonstrates that the District provides for the monitoring of credit card and all other purchases. The District is in full compliance with its policies and procedures. Further, the District’s policies and practices ensure that all purchases are properly reviewed and approved.

The District’s credit card (procurement card) policy recognizes that American Express (AMEX) is an authorized vendor by the New York State Office of General Services (OGS) and that utilizing AMEX cards facilitates processing vouchers for payment and for tracking expenses. The Business Manager and the Superintendent have been instructed by the Board that the preferred practice is to use AMEX so the Board can review each AMEX bill and compare it with the receipts.

The credit cards issued by AMEX have a special color, light blue, indicating that they are municipal cards. AMEX issued credit cards to the Commissioners, Business Manager and Superintendent. These cards are stamped with the individuals’ names and “South Farmingdale Water District”.

One other card, the “general use” card, contains only the name of the District. The general use card is required because an employee would not otherwise be able to use a District credit card with the Business Manager/Superintendent’s name. It is the District’s understanding that AMEX will only issue one general use credit card. The general use card is locked in the District office and is given on a temporary basis to an employee by the Business Manager to make District purchases. The District maintains a written sign-out/sign-in procedure that indicates when this card is given out, to whom, and when it is returned.

An example of the District’s practice for use of the credit card is as follows:

An employee is instructed by the Superintendent to purchase a box of nuts and bolts at Home Depot. He is given the District’s Amex card. After purchasing the item, the employee returns the credit card and receipt to the Superintendent. The Superintendent then initials the receipt. The receipt and credit card are given to the Business Manager. The Business Manager locks up the card, and assigns a general ledger code (for tracking purposes) to the receipt.

When the AMEX bill arrives, the AMEX bill and receipt are attached to the payment voucher. The payment voucher is then reviewed and approved by both the Business Manager and Superintendent. The payment voucher, with the bill and receipt (and receipts for other purchases) is then submitted to the Board for further review and approval. The District’s practice is to maintain all receipts for all purchases because they must be attached to the bills and vouchers.

Further, pursuant to the credit card policy, any purchase that is not approved by the Board shall be reimbursed to the District within 30 days of the purchase. If reimbursement is not received within 30 days the amount shall be deducted from the employee’s wages.

The District’s procurement policy was adopted pursuant to General Municipal Law § 104-b. According to that policy, purchases from \$750 to \$3,499.99 require a purchase order which must be submitted to the Board for review and approval prior to the purchase. Purchases from \$3,500 to \$9,999.99 require verbal price quotes from at least two vendors, and a purchase order reviewed and pre-approved by the Board. Purchases of \$10,000 and above require 3 written price quotes or a request for proposals (RFP) mailed/delivered to three probable bidders. A purchase order reviewed and pre-approved by the Board is also required.

The annual re-organization minutes require purchase orders for all purchases of \$750 and above. All purchase orders require pre-approval by the Board.

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The District’s practice permits the Business Manager and Superintendent to make purchases within their discretion up to \$750. This is necessary so that the Business Manager or Superintendent can make purchases (whether routine, emergency, or otherwise) without having to go the Commissioners for prior approval. The Board cannot, and should not, micromanage the District. However, any such purchase is still subject to review and approval by the Board because the Board ultimately reviews all the bills and receipts prior to authorizing payment.

The Audit Report states that there were “instances where supporting documentation ... was not attached to the voucher and monthly AMEX monthly statements”, but the Audit Report failed to identify those “other instances”. It is patently unfair for the Auditor to include such a blanket statement without identifying the vouchers that are alleged to be deficient, and this should be removed from the Report.

That being said, however, the District received multiple Freedom of Information (FOIL) requests for the AMEX records from outside sources, including Newsday, the Nassau County Comptroller (prior to the Audit), and individual taxpayers.

These AMEX documents (bills, receipts and vouchers) were repeatedly retrieved, unstapled, reviewed and copied when the District duly complied with these FOIL requests. The documents were retrieved again and given to the Auditor during this Audit. It is possible that a receipt or bill became unattached from the voucher during the repeated handling of the documents.

As to Recommendations, (a), (b), (c), (d), (e), and (f), the District already adopted these recommendations into the District’s policies and procedures well before the Audit report.

With regard to (g), the Commissioners’ use of credit cards has traditionally been limited to pre-approved travel/meal expenses for meetings and conferences. However, to reflect the Auditor’s recommendations, the District will amend its policy to specifically reflect that practice.

Auditor’s Follow-up Response:

We concur with the corrective actions taken by the District to develop and implement the use of a formal expense report to itemize, review and reconcile all expenses, whether charged on the Amex card or paid out-of-pocket and seek reimbursement for expenses that are unsupported or unrelated to the day-to-day operations of the District. We also concur with the corrective action to be taken by the District to restrict the use of the credit cards issued to the three Commissioners to expenses incurred for travel, conferences and seminars.

We stand by our findings and recommendations. The District’s claim that the Report’s reference to other exceptions, without specifically listing each one, as being patently unfair, is without merit. Exceptions noted during the fieldwork phase of the audit are discussed with management. It was also explained to the District’s officials at the Exit Conference that an Audit Report will not list each and every exception found during the audit because it is not practical from a time management standpoint or necessary to state the finding. The exceptions specifically identified in the Audit Report are included to help illustrate the nature and extent of the finding. Further, we encouraged the District to request from us any documentation supporting the findings, or exceptions noted in the report. No requests were made.

With respect to the District’s comment regarding alcohol expenditures, because of the lack of

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supporting documentation provided by the conference attendees for all out-of-pocket expenditures, there was no clear audit trail for us to examine in order to determine that all alcohol expenditures were clearly reimbursed to the District.

Audit Finding # 2 Funding of Capital Projects

This Finding should be deleted from the Audit Report. The District believes that the Audit’s claim of a “lack of transparency” is unsubstantiated.

The District has complied with all statutory budget requirements. Further, the Audit cites to no deficiencies in the District’s statutory or regulatory duties or obligations.

The Audit Report fails to recognize the unique nature of budgeting for a water district, and paints an incomplete picture of the District’s budget process. The Audit Report further fails to recognize the Board’s successful efforts to maintain fiscal stability.

Most local districts like school, library and fire districts raise the greatest proportion of their revenue from the steady, predictable source of real property taxes.

While water districts also rely on real estate tax revenue, their predominant income source is derived from water sales. Water sales are by far the most unpredictable source of revenue because they are almost totally dependent upon the weather. Hot dry summers result higher water consumption, higher sales, and more revenue. Conversely, cooler or wetter summers result in less water consumption and less revenue. There is a clear statistical correlation between rainfall totals and lawn sprinkling. On Long Island the dependency is critical because 50% of the water sales are directly dependent upon irrigation consumption.

Because of the high volatility of rainfall/water sales on a month-to-month and year-to-year basis, appropriate long range planning dictates a budget which accommodates these highly unpredictable fluctuations.

The District uses a five year average methodology for developing its annual its budget - an acceptable and appropriate approach for water suppliers with unpredictable water sales revenue.

In addition, because of the unpredictability of water sales revenue, the District maintains an Unreserved Fund as a financial cushion in the event the District has a shortfall of funds due to a drop in water sales revenue - quite literally, a rainy day fund.

The Government Finance Officers Association (GFOA) strongly supports maintaining an adequate Unreserved/Undesignated Fund. We enclose a copy of the Financial Management Article from the April 2002 edition of American City & County announcing promulgation of a new reserve fund balance policy, and a copy of the enacted policy itself titled "Appropriate Level of Unreserved Fund Balance in the General Fund (2002).

The GFOA recommends a "sliding scale" to determine the appropriate level of funding. At the bottom of the scale are "general purpose" governments with a steady predictable source of income. Depending upon a range of factors, the minimum Unreserved Fund balance is between 5%-15%¹. The GFOA then goes on to delineate these factors which mandate higher percentages.

¹ GFOA recommends, at a *minimum*, that general-purpose governments, regardless of size, maintain unreserved fund balance in their general fund of no less than five to 15 percent of regular general fund operating revenues, or of no less than one to two months of regular general fund operating expenditures.

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First, the 5%-15% applies to larger governments which have a broader "diversity of revenues and expenditures"². Because local governments do not possess this innate fiscal flexibility, their minimum *starts* at 15%.

Second, the most important factor to be considered in establishing a reasonable amount of unreserved fund balance is the "predictability of revenues". The GFOA policy concludes that those local districts which have "unpredictable" income streams must set "*significantly*" higher percentage if they are to achieve fiscal responsibility.

There can be little, if any, dispute that water districts occupy the highest end of the GFOA spectrum. Indeed, we cannot envision a local municipal entity more dependent on revenue derived from such an unpredictable source as water sales.

While duly mindful that "excessive fund balances" should be avoided, we acknowledge the GFOA's opinion regarding the perils awaiting at the other end of the pendulum.³ Failure to maintain an appropriate unreserved fund balance could well prove more costly to all the District's consumers if, as noted by GFOA, "temporary revenue shortfalls" necessitate "reducing service levels" or "raising taxes and fees."

In a twenty year period from 1988 through the conclusion of the audit period in 2008, the District was able to limit the number of tax increases to five occasions. Thus, our five year averaging methodology and our appropriate use of the Unreserved Fund has been successful.

In addition to the Unreserved Fund, the District maintains a Capital Fund. The Capital Fund enables the District to make necessary improvements to infrastructure. Some improvements can be fully funded by the Capital Fund. These projects will not incur the additional legal and administrative expense of borrowing money through the issuance of municipal bonds (with the approval of the town). The Board believes this is often more prudent than incurring twenty years of debt and saddling future generations with interest.

However, there are instances where borrowing funds for capital improvement is necessary, and the Board must plan accordingly.

As a case in point, the District's water supply is threatened by an extensive underground plume of contaminants emanating from the former Grumman site. Data confirms that this plume, containing volatile organic compounds such as trichloroethylene, benzene, etc., will reach two of the District's well fields – Plant 1 on Langdon Road, Farmingdale, and Plant 3 on Hicksville Road, North Massapequa.

The four wells located at these Plants account for up to 50% of the water pumped by the district, and they are critical for satisfying peak flow demand, fire flow demand, as well as meeting average demand.

² In footnote 1 of the policy, the GFOA correctly states that local districts must set higher percentages than larger municipalities:

In practice levels of fund balance, (expressed as percentage of revenue/expenditures or as a multiple of monthly expenditures), typically are less for larger governments than for smaller governments because of the magnitude of the amounts involved and because the diversification of their revenues and expenditures often results in lower degrees of volatility.

³ Credit rating agencies carefully monitor levels of fund balance and unreserved fund balance in a government's general fund to evaluate a government's continued creditworthiness. Likewise, laws and regulations often govern appropriate levels of fund balance and unreserved fund balance for state and local governments.

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Faced with this threat, the District planned for the construction of treatment facilities so that when the plume arrives, the District will be prepared to immediately remove the contaminants without interruption of our water supply.

The estimated cost to construct and operate the treatment facility at both locations was up to \$18,000,000. Clearly the magnitude of this project was beyond the ability of the District to fund it from the Capital Reserve Fund. The District sought and received bond approval from the Town of Oyster Bay for up to \$18,000,000 so that the project could proceed. The design of the project was completed and contracts bid for the facility at Plant 1. Construction began in 2009 and is currently underway.

In addition to obtaining bond approval, the District also transferred surplus funds to the Capital Fund resulting in the “build-up” as referred to in the Audit Report. By placing surplus funds into the Capital Fund, the District could significantly reduce the amount it needed to borrow, and by doing so, reduce the financing costs.

Finally, as mentioned above in its discussion of budget transfers, the Audit report omitted information and gave an incomplete picture of the 2008 budget. To complete that picture the District respectfully responds:

In 2008, the District’s budget was \$4,195,550. At the end of the year, there was an unanticipated surplus. Surplus funds were transferred to the to the Capitol Fund bringing its balance to \$2,147,029.00, and ensuring that the District had sufficient funds available for infrastructure improvements, including the anticipated water treatment plant. Surplus funds were also transferred to the Unreserved/Undesignated Fund, creating a balance in the Unreserved/Undesignated fund of \$ 749,396. The Unreserved/Undesignated Fund was 17.8% of the budget. This percentage fell well within the parameters recommended by the GFOA, and it ensured that the District had sufficient funds to protect against cash shortfalls in the face of unpredictable water sales.

In summary, the District’s budgeting methodology and its use of the Unreserved Fund and Capital Fund has been fiscally responsible. The infrastructure improvements will ensure that the District will be able to provide safe drinking water for years to come.

Auditor’s Follow-up Response:

We acknowledge the unique nature of budgeting for a water district and the need for adequate unreserved and reserved fund balances. We also recognize the Board’s efforts to maintain fiscal stability. However, the District’s response focused on the unpredictability of water sales and infrastructure improvements. The District’s response did not address the budgeting methodology for routine operating expenditures to ensure that paid operating expenditures for the prior year are considered in the budgeting process or an explanation for why certain operating expenses are consistently over budgeted by the District when compared to prior years’ actual expenditures. The District’s response also did not explain why the budget for capital projects is kept at the unrealistic low amount of \$25,000.

We stand by our findings and reiterate our recommendations to strive for transparency in the budgeting of the District’s operating revenues and expenses.

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Audit Finding # 3 Budget

The Business Manager reviews the budget on a monthly basis. The review takes place utilizing his computer thus saving paper. The Board reviews the budget on a quarterly basis.

With regard to the purchase of the trucks, the utility truck is a specialized vehicle equipped for emergencies such as water main breaks, hydrant repairs, valve repairs, etc. The dump truck is used for many purposes, including transporting digging spoils from main breaks, filler for holes, and black top.

The dump truck was purchased in October 2006 after a review of revenues demonstrated that there were additional and sufficient revenues to enable the purchase. The purchase of the dump truck did result in the District exceeding the budget line for vehicle purchase. However, budget line items are guidelines. They must be flexible, because revenues are unpredictable. The District needed the dump truck. Revenues permitted the purchase. There was no need to wait until January 2007 for the next available budget line.

With regard to the other vehicles, each is equipped with tools and equipment. The Chevy is a pick-up truck used for general repairs. The other two vehicles are provided for the Superintendent and Business Manager. As discussed below in Audit Finding # 15 Miscellaneous - Take Home Vehicles, the Business Manager and Superintendent must have reliable vehicles. It is imperative that these managers are able to get to the District’s well sites and facilities in emergencies 24-7 and under any weather condition, including heavy snowfall.

Auditor’s Follow-up Response:

We stand by our findings and reiterate our recommendations for the District to implement formal budgetary controls, including review and monitoring procedures to ensure that documentation exists to evidence budget approvals, decisions to exceed the budget and the quarterly reviews of budget expenses to actual expenses. We do not concur with the District’s position that “ budget line items are guidelines.” According to the National Council on Governmental Accounting (“NCGA”), the appropriated budget of a state or local government, unlike budgets in the private sector, is much more than just a financial plan. It is the concrete manifestation of a legislative body’s use of the power of the purse to set public policy.⁴

The District’s response does not address the issue that documentation or other tangible evidence did not exist to support the business justifications the District provided in its response. In addition, the District’s explanation for not having documentation to evidence the monthly budget review performed by the Business Manager and the quarterly budget review performed by the Board (“the review takes place on the computer thus saving paper”) is without merit and not acceptable because it does not consider retaining a copy of the electronic files.

Audit Finding # 4 Election personnel

In years where the election was uncontested, family members were utilized as inspectors/checkers.

⁴ Governmental Accounting, Auditing, and Financial Reporting (“GAAFR”), published by Government Finance Officers Association 2005, Chapter 1 - GAAP and the Governmental Environment, Page 4.

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However during contested elections, the District did not permit family members of the candidates to work in those or any other election position.

Nevertheless, the District agrees with the recommendation that the appearance of a conflict should be avoided and will take steps to address this.

Auditor’s Follow-up Response:

We concur with the corrective actions to be taken by the District to avoid even the appearance of a conflict of interest by requiring that all election workers are impartial and independent of the District.

Audit Finding # 5 Compensation and Benefits

The Audit Findings claim that the District improperly provided life insurance benefits to management employees and commissioners. When the District first purchased these policies, it was assured by its insurance consultant that this type of policy was an appropriate type of employee benefit.

In response, the Auditor cites a 1993 *informal* opinion from the NYS Comptroller as the controlling authority.

This informal opinion is unpublished and cannot be retrieved by any search engine. Furthermore, it was not made available to the District by either the New York State or the Nassau County Comptrollers Offices. The opinion only came to light after the District’s counsel requested it from the Auditor.

As recommended, the District will review this issue further with legal counsel. If the District confirms that the practice is improper, the District will take immediate action to bring the District in compliance.

With regard to NYSHIP, the District will raise the age to 55.

Auditor’s Follow-up Response:

We concur with the corrective action to be taken by the District to review the individual life insurance provided to current and prior Commissioners and managers to ensure the legality, appropriateness and necessity of the practice. If the Board determines the practice is improper, we reiterate our recommendation to recover the costs from the employees; and if the Board determines the practice is appropriate, we reiterate our recommendations to formally document the practice, including any legal opinions of the District’s counsel and maintain copies of all life insurance policies.

With regard to NYSHIP, the District changed the age eligibility for continuing health insurance in retirement to age 55. We reiterate our recommendation that the District consider requiring the District’s commissioners and managers to bear a portion of their health benefit costs both while working and in retirement.

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Audit Finding # 6 Payroll reporting

The Audit Report’s Findings are factually and legally incorrect and should be deleted from the Audit Report. Further, any directive to change the District’s per diem or payment procedures must come from the New York State Comptroller.

NYS Comptroller Opinion 90-49 states that Commissioners “are entitled to receive the full per diem amount for each day on which they actually and necessarily render services on behalf of the district, unless the services are nominal, unsubstantial, trivial or inappreciable.”

Contrary to the statement in the Audit Report, the Commissioners always recorded the days they worked and a description of the work attended to in the date book. The Audit Report failed to indicate one instance where the date book did not provide a description of the work performed. Simply stated, the Audit Report did not indicate a single instance where the Commissioners received pay that did not comply with the Comptroller’s Guidelines.

It should be clearly noted that since July 2006, Commissioner Atoria voluntarily declined to receive the “per diem” compensation that is permitted by law. In addition, Commissioners Atoria and Hirt do not submit any time to the NYS Retirement system and do not receive retirement system credit for District work.

The District’s use of email for processing the Commissioners’ per diem pay is for the express purpose of documentation. The Business Manager reviews the date book to determine the number of per diems the Commissioners should be paid. He gives that information to the Office Manager who is in charge of processing payroll.

While the Business Manger could give the information verbally (their offices are a few feet away from each other), he sends it via email, thus creating a record of the transmittal of the information. Since the payroll processing clerk only requires the number of per diems for each Commissioner, there is no need to include any other information in the email.

With regard to the Audit Recommendations,

(a) The Board fully complies with the current NYS Comptroller’s guidelines on per diem compensation. The Commissioners are elected officials governed by the New York State Public Officers Law. As Public Officers, the Commissioners are not required by statute or by the NYS Comptroller to “submit evidence of their attendance” at conferences and meetings. Management officials often obtain certificates of attendance, if such certificates are required for certification or licensure.

The Audit Report recommends that the attendees of a meeting or conference should submit a report to the Board and attach it to the minutes. The Auditor cites no authority whatsoever for such a recommendation. Public Officers Law § 106 (1) states “Minutes shall ... consist of a record or summary of all motions, proposals, resolutions and any other matter formally voted upon and the vote there on”. The statute clearly does not contemplate, let alone require, the inclusion of reports concerning employee attendance at meetings.

(b) the District required management employee attendance recording since 2009 and will continue to do so;

Auditor’s Follow-up Response:

The Audit Report’s recommendations were not directives to change the NYSLRS and NYS

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Comptroller procedures. The Audit Report did not note any findings related to the District’s NYSLRS reporting. Further, the District’s reference to Public Officers Law§ 106 (1) is not relevant in the context of the finding because the finding does not take issue with the what is required to be included in the minutes, but rather what is required to substantiate Commissioners’ per diem payments. Therefore, we stand by our findings and reiterate our recommendation that Commissioners and management employees submit evidence of their attendance at all offsite conferences, such as Certificates of Attendance that are customarily issued to attendees.

We concur with the corrective actions taken by the District to require attendance recording for its management employees.

Audit Finding #7 Leave Policy

The District does not agree that benefits are “extraordinary”. The District’s management team consists of highly qualified and experienced employees who have a wealth of institutional knowledge of the District and its water supply. The compensation provided to management employees is designed to fairly compensate them, and to enable the District to keep these valuable employees. To maintain efficient District operations it cannot afford to lose these employees to another water supplier.

However, the District will review the benefits afforded to managers as suggested in the Audit Recommendations.

Auditor’s Follow-up Response:

We concur with the corrective actions to be taken by the District to reevaluate the leave benefits provided to managers, the accrual of 100% reimbursement accrued sick leave upon separation from service and the absence of a requirement for a maximum number of vacation days that may be accumulated.

Audit Finding # 8 Controls over Cash Disbursements

The District disagrees that there are weaknesses in the controls over cash disbursements, and notes that the Auditor found no evidence that any disbursements were improper or unauthorized.

The District’s software prints the checks. The checks are then signed by facsimile as part of the automatic processing. The checks are reviewed by the Business Manager and attached to the vouchers for further review and approval by the Board. If the checks are correct and approved, the checks are mailed out. If a check is incorrect, it is voided, and a new check is issued. While checks are signed via facsimile, they all undergo a two step approval process - first reviewed by the Business Manager and then a second further review by the Board before they are mailed.

The Audit Report is critical of the District’s documentation of “two vouchers totaling \$7,065”, yet fails to identify those vouchers. Without knowing which vouchers are alleged to be deficient, the District is unable to address them and the comment should be deleted from the Audit Report.

As to the recommendations:

- a) The recommendations are already performed by the District.

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- b) The District will review the recommendation.
- (c) and (d) The District agrees with Recommendations

Auditor’s Follow-up Response:

We concur with the corrective action taken by the District to ensure that the Superintendent and Business Manager review and approve vouchers prior to entry into the general ledger.

We stand by our findings. We reiterate our recommendation for the Commissioners to review and approve vouchers prior to check signing. We also reiterate our recommendations to improve the integrity of the Master Vendor File by implementing a review of the existing Master Vendor File to correct duplicates and errors and requiring a supervisory review and approval of all new vendors or changes made to the Master Vendor File.

With respect to the District’s response to delete from the Audit Report the finding related to the “two vouchers totaling \$7,065”, as previously mentioned, it is not the practice of this office to list every exception noted. Exceptions noted during the fieldwork phase of the audit are discussed with management. Further, at the Exit Conference, we encouraged District management to notify us if they wanted any of the documentation supporting the findings, or exceptions noted in the report. No requests were made.

Audit Finding # 9 Written Policies and Procedures

The Audit Report noted that the District did not have a manual containing policies and procedures for its various accounting functions. When the Auditor asked for the written procedures, the District did not have a “procedure book on the shelf” that contained all the District’s procedures. When the District inquired whether the Auditor could provide guidance in this area in the form of a generic guide book or a sample form from another municipality, the Auditor indicated it did not know of any sample for any local government, let alone a relatively small water District. The compilation of a manual detailing all the tasks undertaken by the employees would be an enormous undertaking. Further, procedures are a “work in progress”. They are not static, but are always evolving, and a manual would have to be constantly updated.

Our accountant, AVZ, has advised us that they have not seen any district with a manual of written policies/procedures on most of these items. However, AVZ annually reviews all key accounting functions with the District’s employees as part of its annual audit. AVZ discusses procedures with the District’s employees, and prepared written narratives outlining the various functions and how they are accomplished. While the narratives are not a “procedure manual” per se, the narratives are used by AVZ to evaluate the District’s internal accounting controls and to plan the extent of their audit procedures.

Written narratives cover procedures for various accounting functions:

1. Control Activities – Cash
2. Control Activities -Revenue-Proprietary Funds
3. Control Activities - Expenditures and Payables
4. Control Activities – Payroll

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5. Inventory Narrative
6. Computer Application Controls Accounting Express
7. Computer Application Controls Water Package
8. IT Narrative
9. General Computer Controls
10. Evaluation of Design and Implementation of Internal Control

Although the District did not have possession of the written narratives during the audit period, the District has obtained, and will obtain future updated narratives from AVZ.

In addition to the accounting policies and procedures noted above the District also adopted written policies which are reviewed and revised periodically as follow:

- Investment Policy
- Records Retention Policy
- Capital Asset Policy
- Code of Ethics Policy
- Auto Use Policy
- Travel and Conference Policy
- Credit Card Policy
- Cell Phone Policy

With regard to election process, the District follows the Town Law and the Election Law.

The District notes that the Audit Report found “no occurrence” of “splitting purchase order”, an improper methodology used to avoid the law governing competitive bidding. The District does not split purchase orders. It fully complies with the General Municipal Law’s statutory competitive bidding requirements.

The District disagrees with the Auditor’s conclusion that there are “incomplete or inadequate written policies and procedures”. However, we note that the Auditor made no finding of any misuse of funds due to the alleged lack of written procedures.

Auditor’s Follow-up Response:

Our recommendation was for the District to document the significant activities for which nothing written could be provided to us, as well as to utilize the documentation that already exists and is scattered throughout the Board minutes. The recommendation is to consolidate all policy and procedures, particularly those noted in the Board minutes, in one place for easy access for reference and updating purposes.

We informed the District on several occasions including during the Exit Conference, that it is not the practice of the Comptroller’s Office to provide detailed policy and procedure manuals to its auditees. We did refer District management to the New York State Comptroller’s website for guidance, and also suggested that it reach out to its auditor or other water districts.

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We stand by our findings and reiterate our recommendation.

Audit Finding #10 Segregation of Duties

The District will review the segregation of accounting functions. Staff size and civil service titles will play a major role in our determination. If this cannot be accomplished due to work responsibilities and staff size, a comprehensive and formal supervisory review of the employees' work may be implemented.

Auditor’s Follow-up Response:

We concur with the corrective action to be taken by the District to review and segregate incompatible accounting functions and/or implement formal supervisory reviews of the employees’ work.

Audit Finding #11 Investment Activities

The Audit Report alleges notes weaknesses in Board and management oversight of investment activities. Matters of investment activities as well as cash flow are monitored by management and discussed at length at Board meetings. Although the District disagrees with the Auditor’s finding that controls are weak the District understands and agrees with the need for increased documentation.

The District’s CDs are maintained in banks that have Collateral Agreements in accordance with the District’s Investment Policy. The CDs are laddered so that they mature on Wednesdays, the day after the Board meetings. The CDs are discussed at the Tuesday Board meetings and the Board will authorize the Business Manager to redeem, rollover, or move the CD to another eligible institution for a better rate.

The District will document in the minutes the review of the spreadsheet, etc. and the Board’s investment decisions. The District will also consider increasing the number of signatories required for investment transactions to that of one Commissioner and the Business Manager.

Auditor’s Follow-up Response:

We concur with the corrective actions to be taken by the District to strengthen the documentation evidencing the Board’s review and approval of investment activities.

We stand by our findings and reiterate our recommendations to increase the number of signatories required for investment transactions to a minimum of the Business Manager and one Commissioner and require that a senior manager perform a documented review of the investment journal entries to ensure they properly reflect the transactions approved by the Business Manager and the Board.

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Audit Finding # 12 Board Minutes

The District agrees with Recommendations (a) and (b) that the Minutes should be prepared in a timely manner and that they should be, read, amended if necessary, and formally adopted at subsequent meetings. The District will consider reassigning the responsibility of preparing the minutes.

The District disagrees with Recommendation (c) which suggests that every District check disbursed be listed in the minutes. The Audit Report has no statutory basis for this recommendation. To the contrary, Public Officers Law § 106 (1) states “Minutes shall be taken at all open meetings of a public body which shall consist of a record or summary of all motions, proposals, resolutions and any other matter formally voted upon and the vote there on”. The NYS Comptroller, in Opinion 90-52, reiterates the statutory requirement.

While there is no requirement that the District include individual items such as checks in the minutes, the District will ensure that the expenditures voted on by the Board are duly recorded in the minutes.

Auditor’s Follow-up Response:

We concur with the corrective actions to be taken by the District to improve the timeliness and adoption of Board Minutes and the inclusion of the expenditures voted on by the Board.

We stand by our findings. We reiterate our recommendation to include in the Board Minutes the check ranges for all disbursements approved and issued between meetings as good internal control practice and to improve evidence of oversight. We also reiterate our recommendation to attach a copy of the check register to the Minutes because it improves the transparency of the Minutes with respect to the specific disbursements reviewed and approved by the Commissioners.

Audit Finding # 13 Role of External Audit Firm

Our auditors at the firm of Albrecht, Viggiano, Zureck & Co., PC have reported this condition to us in their management letters. This condition is currently an issue with many other smaller governmental organizations. Their recommendations to us included additional training for the accounting staff, and in some instances, utilizing accounting services independent from those provided by the audit firm. The District will consider the recommendations in this report as well as those of our auditors on this matter.

Auditor’s Follow-up Response:

We commend the District for considering our findings and recommendations to allow the external auditors to limit their role to the audit function and to adopt a policy for rotating external auditors every 5 to 6 years, as many municipalities and special districts now do, consistent with the Office of the New York State Comptroller’s guidelines on professional services competitive bidding policies

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Audit Finding # 14 Fixed Assets

In 2007, the District planned to retain a firm to assist it with an inspection of fixed assets. However, due to lower than expected water sales revenue, the District decided not to expend those funds. As the economy worsened in 2008 & 2009 the District did not budget for the inspection. The District’s 2010 budget included funds for the inspection. The inspection of fixed assets should be completed before the end of 2011.

Auditor’s Follow-up Response:

We concur with the corrective actions to be taken by the District to perform an inspection of fixed assets and reiterate our recommendation to compare the results of the inspection to the detail records and investigate and resolve any discrepancies noted.

Audit Finding # 15 Miscellaneous

Accounts Receivable –

In 2009 the District implemented reconciliation procedures such as in the Recommendations.

Auditor’s Follow-up Response:

We concur with the corrective action taken by the District to reconcile the accounts receivable subsidiary ledger to the general ledger.

Engineering

The District strongly disagrees with the Audit Findings that there is an “over-reliance” on its engineering firm, that the district does not have the necessary expertise to monitor the engineering firm, and that “unnecessary District spending may occur”.

The Board has the responsibility to evaluate the services rendered by the engineering firm. The Board, Business Manager and Superintendent are knowledgeable in construction, operations, and finance. They have the opportunity and the ability to judge the performance of the engineers.

As a licensed professional engineering firm, the firm must follow a professional code of ethics. The engineering firm’s record over past years has shown that can be relied upon as a qualified, trusted, and knowledgeable advisor, capable of assisting the District with implementation of capital projects and operational improvements.

The Auditor’s Findings erroneously concluded that the District incurred an additional expense of “50% of the allowance for the de-watering” under the contract to install a gasoline storage tank, and speculated that it was possible that the engineer was “lax in performing its oversight function”. In fact, the District received a \$4,479.00 credit per a change order, not an expense for the contractor’s mobilization of a work crew.

Further, with regard to that contract, dewatering was not needed for the installation of the tank. As a result, the District, with the assistance of the engineers, was able to negotiate a reduction in the

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alternate bid price for dewatering from \$12,000 to \$7,000 to reflect the reduced scope, thereby saving the District \$5,000. The District did not incur unnecessary expense.

As to the Audit Recommendations, General Municipal Law Section 104-b does not require competitive bidding for the procurement of professional services such as engineering, neither does the New York State Court of Appeals or the NYS Comptroller (see NYCPTR OPN 2007-1). However, since 2009, the District utilized the qualifications based selection (QBS) process to evaluate engineering firms and selected H2M based on its review.

Further, the Audit Recommendation to separate the engineering functions would require the District to hire another engineering firm. This would engender a prohibitive increased cost to a District of this size with no verified cost savings justifying such an extra expense to our taxpayer. The District believes its present engineering firm is well qualified and knowledgeable of the District, its infrastructure and personnel, and capable of coordinating daily operations and capital improvements.

Auditor’s Follow-up Response:

We stand by our finding related to the unnecessary expenditure by the District. According to the April 10, 2007 Board Minutes, the Board “agreed to pay the contractor 50% less the application portion of the contract” because the contractor “did mobilize his equipment and crew...”

We also reiterate our recommendations for the District to consider separating the functions of engineering advisor and monitoring engineer, developing a plan to effectively evaluate both functions and periodically soliciting Request for Proposals (RFPs) to ensure that the District is getting the best service for taxpayers’ dollars.

Take Home Vehicles

The Federal and New York State Governments declared water utilities, such as the District, to be first responders during times of emergencies. It is imperative that the District’s management team be able to get to the well sites and facilities for emergencies 24-7 and under any weather conditions, such as heavy snow storms.

In 2009 the District responded to more than 200 emergencies ranging from water main breaks to pumpage issues, etc. By providing reliable take home vehicles, the District ensures that qualified managers can quickly respond to emergencies.

Auditor’s Follow-up Response:

We stand by our finding and reiterate our recommendation for the District to formally document the business rationale and need for each vehicle to be taken home and the corresponding benefit to the District.

Diesel Fuel

The District agrees with the Recommendations

Auditor’s Follow-up Response:

We concur with the corrective actions to be taken by the District to develop a formal process to periodically reconcile the gallons of fuel delivered and the gallons pumped with the gallons remaining in the tank.

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Petty Cash

The District currently has three employees count the funds, including the Office Manager. The District will review its procedures to implement the Recommendations.

Auditor’s Follow-up Response:

We concur with the corrective actions to be taken by the District to improve the controls over petty cash.

Passwords

The District agrees with the Recommendation

Auditor’s Follow-up Response:

We concur with the corrective action to be taken by the District to establish a policy that requires employees to change their computer passwords on a periodic basis.

In summary, the Board will continue to work with its employees and advisors to implement recommendations that will improve its policies and procedures and better serve the residents of the District. The Board believes that the Audit demonstrates that the District is well run and free from fraud.

January 13, 2011