



**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

DIVISION OF STATE SERVICES

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**SANITARY DISTRICT No. 1
TOWN OF HEMPSTEAD**

**INTERNAL CONTROLS
OVER FINANCIAL
OPERATIONS**

Report 2005-S-69

AUDIT OBJECTIVE

The objective of our audit was to address the following questions related to the financial management practices of Sanitary District No. 1 Town of Hempstead (District) for the period January 1, 2003 through April 28, 2006:

- Has the District's Board of Commissioners (Board) established a system of internal controls that provides reasonable assurance that the District's assets are properly safeguarded?
- Does District management operate the District in an economical and efficient manner in the best interests of the taxpayers?
- Have District officials established appropriate internal controls over the reporting of retirement service credits for their employees to the New York State and Local Retirement System (NYSLRS)?

AUDIT RESULTS - SUMMARY

Controls are not adequate to provide reasonable assurance that assets are properly safeguarded. In addition, District management does not operate the District in an economical and efficient manner, as we identified \$462,000 in excess costs over the 40-month period of our audit. Additionally, the District needs to improve controls to ensure that the correct service credits for its employees are reported to the NYSLRS.

The District's Board and top management have not established a good control environment. They have not hired or trained experienced full-time fiscal staff to properly oversee the District's \$15 million operation. They also do not ensure that adequate

competition is obtained prior to awarding contracts. In addition, the last independent audit of the District's financial statements was for the 2003 calendar year, and the Board and top management have taken little or no action to implement the prior recommendations of State and local government auditors to improve internal controls over financial operations. Under such conditions, there is inadequate assurance that the District's assets are properly safeguarded.

Actions taken by the Board and top management have resulted in excess costs to the District's taxpayers. For example, the District provides its retirees with fully paid dental and vision insurance at a cost of about \$220,000 during our 40-month audit period. No other sanitary district we contacted provides this benefit. Over the years, the various District Boards have also created a system which affords members the opportunity to reward themselves and top management through fringe benefits and raises that exceed those of other sanitary districts. For example, each union employee receives a \$20,000 life insurance policy, while Board members and management staff receive policies ranging from \$75,000 to \$300,000, well in excess of the coverage provided to officials of other districts. The District could have saved over \$140,000 during our audit period had they limited the life insurance policies for officials to \$50,000, the maximum coverage any district we contacted provides for its management staff.

The Board has not fulfilled its fiduciary responsibility to establish a system of internal controls that promotes economical and efficient operations, and safeguards public assets. Lapses in control resulted in problems including paying health insurance for deceased retirees, potential conflicts of interest in purchasing and contracting, and

inaccurate financial records and tax reporting. As a result, we identified wasteful practices at the District which resulted in excessive costs for the audit period, including \$56,000 in health and other insurance costs for people who did not qualify for coverage, and \$46,000 in overpayments for diesel fuel, because the District did not use available State contracts.

The District is also not always properly reporting retirement service credits to the NYSLRS. We found that the District did not maintain any documentation to support the service credits reported for elected and appointed officials.

Our report contains 28 recommendations to improve internal controls over the District's financial operations. District officials generally agreed with our recommendations and indicated they will initiate corrective action.

This report, dated January 11, 2007, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or
Office of the State Comptroller
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BACKGROUND

The District, located in Lawrence, Long Island, has approximately 16,500 customers and during calendar year 2005 the District employed about 110 people with an annual budget of over \$15 million. The District is responsible for collecting and disposing of residential and commercial trash and rubbish in the Cedarhurst, Hewlett, Inwood, Lawrence, Woodmere, Green Acres, and Valley Stream South communities, as well as the incorporated villages of Hewlett Harbor, Hewlett Neck, Woodsburgh, Hewlett Bay Park, Meadowmere Park and the unincorporated area of Lynbrook, in the Town of Hempstead, in Nassau County. The District is governed by an elected five-member Board of Commissioners (Board). Daily operations are overseen by a Superintendent and an Assistant Superintendent who are appointed by the Board. The District is funded primarily from local tax levies (about \$14.4 million annually) and fees charged to private firms who use the District's facilities to dump their agricultural and commercial waste (about \$900,000 annually). According to an analysis done by the Nassau County Comptroller's Office (NCC) in December 2005, the District had the highest average tax levy per parcel (\$863 in 2004) of the 13 sanitary districts NCC selected for the analysis. The District is governed by New York State General Municipal Law, and its employees are members of the New York State and Local Retirement System (NYSLRS).

In October 1996, the Office of the State Comptroller (OSC) issued report 96M-340 on the financial operations of the District. This report included recommendations to improve the District's internal controls over its contracting and purchasing practices, payments for professional services, payroll

policies and procedures, and retirement reporting for elected and appointed officials. During 2005, the NCC undertook a series of audits of the financial practices of a number of sanitary districts, including the District. NCC terminated the District audit in June 2005, because of a lack of cooperation from the District. NCC, however, did provide District officials with a summary of the results of their preliminary audit findings, recommending corrective action. NCC's findings included: lack of controls over District revenues and cash receipts; inadequate timekeeping, accounting and bookkeeping practices; and a lack of written contracts and procurement policies governing essential services.

AUDIT FINDINGS AND RECOMMENDATIONS

Internal Controls

The Board is responsible for establishing a system of internal controls over the District's financial operations and ensuring that the District's management team is adhering to it. The control environment sets the tone for an organization and is the foundation for all other components of internal control. It includes management's integrity, ethical values, and competence, as well as management's philosophy and operating style. The control environment is also reflected in the methods management uses to assign authority and responsibility, the way management organizes and develops its people, and the attention and direction provided by the Board.

The District's Board and top management have not established a good control environment. They have not hired or trained experienced full-time fiscal staff to properly

oversee the District's \$15 million operation. In addition, the last independent audit of the District's financial statements was for the 2003 calendar year. Further, the Board and top management have taken little or no action to implement the prior recommendations of OSC and the NCC to improve internal controls over financial operations. As a result, most of the conditions cited in these earlier audits continue to exist.

Actions taken by the Board and top management have resulted in excess costs to the District's taxpayers. In addition, over the years, the various Boards have created a system which affords members the opportunity to reward themselves and top management through fringe benefits and raises that are far in excess of those provided at other comparable sanitary districts. As a result, we identified wasteful practices at the District which resulted in excessive costs for the audit period, including \$56,000 in health and other insurance costs for people who did not qualify for coverage, \$140,000 in excessive life insurance premiums for Board and management, \$220,000 in benefits for retirees that no other district provides, and \$46,000 for diesel fuel costs above the State contract price. Therefore, we determined that annual cost savings of about \$140,000 are achievable in these areas.

Board and Management Compensation

The District's five Board members receive an annual salary of \$7,500, which is the amount set by law. However, there are no legal limits on the fringe benefits or other compensation Board members may provide to themselves. Over the years, various Boards have acted to provide themselves with benefits that are neither customary for the industry nor consistent with the benefit packages provided to regular employees. For example, like other

sanitary districts on Long Island, the District pays the health insurance premiums for its employees, including the Board. The District's union employees are eligible for these benefits for life if they qualify for retirement through the NYSLRS. In contrast, non-union employees, including Board members and top management, need only to have attained the age of 62 and accumulated five years of service, the length of a Board member's term in office, to receive the same benefits. Thus, every Board member who is 62 will receive these benefits for life as long as they serve just one full term.

The District also pays for term life insurance policies for current and retired employees. However, the amount of the policies provided to Board members and top management exceeds those provided to union members by as much as 1,400 percent. Each union employee receives a \$20,000 policy, while Board members and non-union employees receive policies ranging from \$75,000 to \$300,000. The Board provides \$300,000 policies for each of its five members, the Superintendent and the part-time Treasurer, as well as a \$200,000 policy for the General Counsel. We contacted three other local sanitary districts regarding their insurance coverage. Two districts provide no life insurance coverage to their employees or board members, while the other one provides coverage ranging from \$5,000 for union workers to \$50,000 for non-union and management employees, as shown in the following table.

| Position | District 1 | District 2 | District 6 | District 7 |
|--------------------------|----------------------|-------------------|-------------------|-------------------|
| Non-union and Management | \$75,000 - \$300,000 | \$50,000 | \$0 | \$0 |
| Union Employees | \$20,000 | \$5,000 | \$0 | \$0 |

The District pays over \$100,000 annually for these policies, of which over \$65,000 is attributable to Board members and non-union employees. If the District had limited the life insurance policies for Board members and non-union employees to \$50,000, the District would have saved over \$140,000 over the 40-month period of our audit. Therefore, annual cost savings of over \$42,000 are achievable.

The District also provides all employees with fully paid dental and vision insurance both while they are actively employed by the District and throughout their retirement years. The District paid about \$900,000 for these coverages during the audit period. Of the three other districts we contacted, only one (District 2) provides dental and vision coverage at no cost for active employees. District 6 makes coverage available, but employees must pay the full cost. In no case is this coverage provided during the retirement years without cost, as shown in the following table.

| Employee Status | District 1 | District 2 | District 6 | District 7 |
|-----------------|--------------|-----------------|---------------|-------------|
| Active | Pays in Full | Pays 80 percent | Employee Pays | No Coverage |
| Retired | Pays in Full | No Coverage | Employee Pays | No Coverage |

If the District limited these benefits to active employees, it could have saved \$220,000 during our audit period. If the District had limited coverage to paying 80 percent for active employees and no coverage for retirees as does District 2, it could have saved about \$355,000 during our audit period. Annual cost savings of \$105,000 are achievable. If the District stopped paying for any dental and vision coverage, similar to Districts 6 and 7, then annual savings of about \$270,000 are possible.

As with health insurance benefits, Board members and all non-union employees receive life, dental and vision insurance for their lifetime provided they are 62 with at least five years of District employment. Union employees must be able to retire under the more stringent NYSLRS rules to receive these benefits in retirement.

Although Board salaries are fixed by statute, salaries of top management are not. The Board has approved annual salaries for the Superintendent and Assistant Superintendent that are much higher than their counterparts at other districts as shown in the following table.

| | District 1 | District 2 | District 6 | District 7 |
|------------------------|--------------|-------------|--------------|-------------|
| Number of Employees | 110 | 120 | 220 | 66 |
| 2005 Budget | \$15 million | \$9 million | \$22 million | \$6 million |
| Superintendent Salary | \$139,221 | \$99,858 | \$104,536 | \$128,773 |
| Assistant Supt. Salary | \$100,939 | \$91,670 | \$ 77,811 | * |

* District 7 does not have an Assistant Superintendent.

In addition, the District's Superintendent has received raises totaling 11 percent for the three calendar years ended December 31, 2005, while his counterparts in Districts 2 and 6 received 0 and 8 percent, respectively, over the same period. Similarly, the Assistant Superintendent received raises totaling 12 percent during the same period, while his counterparts at Districts 2 and 6 earned raises totaling 9 and 8 percent, respectively.

Not only does the Board provide expensive benefits to top management, but has extended the benefits to its attorney and accountant, who it treats as employees, rather than independent contractors. IRS Publication 15-A establishes the guidelines for determining

whether workers are employees or independent contractors. These guidelines focus on the relationship between the worker and employer. In general, when management exercises a significant degree of control over a worker's activities, the worker is considered an employee. Conversely, a worker that exercises a significant degree of independence regarding how, when and where assigned tasks are performed is considered an independent contractor. As a result of the Board's decision to treat its attorney and accountant as employees, these individuals receive a salary and significant fringe benefits. However, based on IRS criteria, we believe they should more appropriately be considered as independent contractors.

The District's attorney, who is given the title of General Counsel, was hired in 1972 as a part-time employee earning \$175 a month. He is currently paid an annual salary of over \$40,000. In addition, the District provides over \$17,000 per year in fringe benefits (or \$55,000 for the audit period), including a \$200,000 life insurance policy, all of which will remain in effect after he retires. He is also a member of the NYSLRS and will receive a pension upon retirement based on his many years of service. In addition to his \$40,000 salary, we found the attorney bills the District \$200 per hour working as an independent contractor for much of the legal work he performs. These bills totaled over \$54,000 for the 33 months ended September 30, 2005. In total for 2005, the District paid over \$80,000 for the attorney's salary, fringe benefits, and billed charges.

Neither the District nor the attorney was able to provide us with a written agreement that identifies what work is salaried and what is contractual. The attorney told us that his \$40,000 salary was a retainer. We found the attorney exercises a considerable degree of

independence in performing tasks for the District. He has no established work schedule and does not maintain time records for the District. He also has no office at the District; most of the work is performed in his private office. In our opinion, this individual should more appropriately be classified as an independent contractor and paid accordingly.

A similar situation exists with the District's accountant, who is given the title of Treasurer. This individual was hired in 1994 as a part-time employee earning \$18,500. He is currently paid about \$42,000 annually. He also receives health insurance, dental and vision coverage, and a \$300,000 life insurance policy at a total cost to the District of about \$19,000 per year. Although the District reports him to the NYSLRS as a full-time employee, we found that he actually works much less than full-time. In addition to attending semi-monthly Board meetings, the accountant works only a few hours each week performing the District's bookkeeping duties. He does not maintain time records. He also operates a private accounting practice, and is employed by three other public entities: first, as a full-time Village Clerk/Treasurer for the Village of Cedarhurst at a salary of over \$90,000, plus \$4,000 in additional compensation for not accepting health insurance through the Village (he receives health insurance from the District); second, as the School District Treasurer for the Island Park Union Free School District, where he reportedly works a few hours a week earning about \$12,000 annually; and third, as the Treasurer for the Inwood Fire District, where he also reportedly works a few hours a week and earns about \$11,500 annually. The total current annual salary and other benefits received by this individual from the four public entities exceeds \$178,000. Except for his job at the Village of Cedarhurst, he has no established work schedule and does not

maintain time records. As with the attorney, in our opinion, this individual should more appropriately be classified as an independent contractor and paid accordingly.

Finally, we found the Board has given raises to other administrative employees with little or no documented justification, and established new positions and made promotions without complying with local civil service rules. The District has established several non-union positions in its office to perform routine financial operations and handle customer requests. The individuals in these positions currently earn from \$43,000 to \$68,000 per year plus fringe benefits. The District has not developed formal job descriptions for these positions. In addition, there are no minimum qualifications required to fill these positions, and the District has not developed any performance standards for them.

The majority of the District's employees are union members and their annual salaries are determined by a union contract. For the three years ended December 31, 2005, these union employees received raises totaling 11.15 percent. In contrast, we found three of the office employees received salary increases totaling between 20 and 25 percent for the same period. The Superintendent indicated to us that these employees had been promoted to new positions based on their job performance. However, the District does not have a formal performance evaluation system in place and as a result has no documentation to support these promotional decisions. In addition, the Nassau County Civil Service Commission's (CSC) rules require the District to submit all new positions and salary scale changes for approval. Each of these employees was being paid about \$10,000 more than their CSC-approved salary schedule. We reviewed the records for the three office employees and

found that two had none of the required forms filed with CSC.

Fiscal Oversight

The District is a \$15 million per year operation. As such, the Board has a fiduciary responsibility to establish a system of internal controls that promotes economical and efficient operations, and safeguards public assets. We found the Board has failed to fulfill its responsibility and as a result the District has incurred unnecessary expenses. We found that lapses in control resulted in problems including paying health insurance for deceased retirees, potential conflicts of interest in purchasing and contracting, and inaccurate financial records and tax reporting.

Health Insurance

The District expends about \$1.8 million annually to provide health insurance for its current and retired employees and their families. We found that the District overpaid health insurance premiums by about \$52,000 for seven people who did not qualify for coverage, as follows:

- One retired employee with individual coverage: A death certificate in this individual's file indicated this employee died on April 26, 2003. Despite this, the District continued to pay this person's health insurance premiums until the time we brought the matter to their attention in May 2006. The District paid over \$16,000 in premiums for this employee after he died.
- Two retired employees who had family coverage: In these cases, either the former employee or their spouse died, yet the District continued paying family coverage premiums for these people. In

total, the District paid over \$12,000 in excess premiums.

- Four employees who terminated their District employment prior to reaching retirement age: civil service and retirement rules allowed such employees to continue receiving their health insurance coverage through the District until they retired by reimbursing the District for the cost of their health insurance premiums. District officials claimed that these four employees paid for their premiums, but could not document all these payments. In total, the District paid about \$100,000 for these former employees' premiums during the 40 months ended April 28, 2006, but could only document reimbursements totaling about \$76,000, for a net deficit of about \$24,000.

We also identified improper payments of premiums totaling over \$3,400 for the audit period for dental, vision and life insurance coverage. In one instance, the District continued to pay dental and vision insurance for a deceased employee.

Insurance rules allow the District to recover erroneous payments of up to one year of premiums. Based on our findings, the District has initiated actions to recover some of these payments. As of October 2006, District officials indicate they have recovered about \$45,000.

Procurement of Services

As a local government entity, the District has the ability to make purchases using centralized contracts established by the State. When those contracts are not utilized, the General Municipal Law (GML) requires that purchase contracts for materials, equipment

and supplies involving an estimated annual expenditure in excess of \$10,000 will be awarded only after responsible bids have been received in response to a public advertisement soliciting formal bids. In addition, the GML requires the Board to adopt, by resolution, policies and procedures for the procurement of goods and services when public advertisement for competitive bids is not required by law. In 1991, the District established such policies and procedures, indicating the Superintendent shall determine the method of procurement, taking into account the cost effectiveness of the method selected. The Board further resolved to ensure the prudent and economical use of District funds, to facilitate the purchase of goods and services of desired quality at the best price, and to guard against favoritism, extravagance, fraud and corruption.

We identified 20 vendors to whom the District paid more than \$100,000 during the 40-month audit period, and another 15 vendors who were paid more than \$10,000 in a single year. We found that the District did not use available State contracts and did not bid many of the purchases in excess of the \$10,000 limit. In responding to our draft report, District officials note that competitive bidding is only required when it is known, or can be reasonably anticipated, that the amount spent will exceed the competitive bidding threshold. Officials further contend that in these cases, the District's needs could not be reasonably predicted in advance. While unforeseen circumstances may account for some of the 15 vendors who were paid more than \$10,000 during a single year, management should certainly be able to recognize the spending patterns associated with the 20 vendors who were paid over \$100,000 (an average of \$30,000 per year) during the audit period.

When the District did bid, it appears it did so to comply with the letter, not the spirit, of the law. For example, while the requests for bids were published, they were published in one edition of two local weekly newspapers. They were not published in the larger local newspapers or in trade publications which would have wider circulation. In addition, logs were not maintained to indicate the date and time each bid was received, and records were not maintained of the bid openings that included the date, time, and the people present. As a result, there was little assurance that the District obtained its necessary goods and services competitively and at the best prices available. Some examples follow:

Diesel Fuel - The District contracted with a sole bidder for its diesel fuel, expending over \$315,000 during the 36 months ended December 31, 2005. District officials stated this occurred because no local vendors could match this vendor's delivery price for the fuel due to the company's proximity to the District. However, the District did not use available State contracts. We compared the State contract diesel price to the price charged by the District's contractor for each delivery and found that the State contract price was significantly lower. In addition, we identified a local fuel vendor who would deliver to the District at the State contract price. As a result, we determined that the District overpaid for diesel fuel by more than \$46,000 during the three-year period ended December 2005. We contacted two other sanitation districts in the area and both districts indicated that they use State contracts extensively.

Professional Services - We found that the District has made no efforts to seek competitive proposals for various professional services, such as insurance broker services (\$50,000 annually), legal services (\$39,000),

and engineering services (\$24,000). All of these arrangements were longstanding at the time of our audit. A competitive request-for-proposal process for service contracts would help ensure the District receives the desired services for the best price.

- Insurance Broker - The Board has used the same broker to provide the District's vehicle, property, liability, and other related insurances for many years, which cost in excess of \$500,000 annually. The District pays this insurance broker a commission of 10 percent or about \$50,000 annually. This company was once owned by one of the Board members whose name appears on the firm's letterhead. The Board member informed us that he received no compensation from this company and had in fact sold the business before it started handling the District's policies. The Board has never competitively purchased this service and, therefore, does not know if it is receiving the best possible price. We contacted two other sanitary districts and found that both "shop" their insurance broker contract annually.
- Labor Counsel - The Board has used the same attorney as its labor counsel for many years. Prior to 1999, the attorney was employed full-time by the District. He is now retired and receiving health, life, dental and vision insurance benefits from the District at a cost of about \$15,000 per year. The Board is also currently paying him about \$39,000 annually in fees. The Board has never solicited other proposals to ensure it is receiving these services at the best possible price.

- **Engineering Services** - The Board contracts with an engineer to monitor operations at its waste transfer and recycling facility at a cost of \$24,000 annually. District officials indicate this contract has not been subjected to the competitive process because the engineer is a former operator of the recycling facility. However, this prior experience does not guarantee that the cost is competitive.

In responding to our draft report, District officials note that they are not required by law to solicit competitive bids for professional services that require specialized skills and expertise. We agree that the law does not require that such contracts be formally bid or awarded solely based on price, as do contracts for materials, equipment and supplies; however, the Board and management have a fiduciary responsibility to ensure they are acquiring qualified services at a fair and reasonable price. Our report suggests the Board solicit proposals from several qualified professionals to ensure appropriate value is acquired.

We found that even when the District does choose to solicit competition for contracts, its practice of advertising only in the local weekly newspapers effectively limits competition and in some cases causes us to question whether the contracts are being steered toward certain parties. The following examples illustrate our point:

Security Service - The District contracts with a private security company to provide security coverage at night and on weekends. The District paid this company \$238,879 during the period January 1, 2003 through September 30, 2005. This company has had the contract for many years, and was the only bidder when the contract was advertised in the local

weekly newspapers. At the time of our field audit work, the District was the company's only client. The company's owner told us that he and his two employees provide the 123 hours of weekly coverage required by the contract. The guards are not required to maintain daily logs of their activities or to supply time records to verify the hours they have worked. We made observations at different times on three separate nights and did not see any guards present. Our first observation was performed between 5:00 a.m. and 6:45 a.m., the second between 1:00 a.m. and 1:40 a.m., and the last between 11 p.m. and 12:30 a.m. We also noticed on a regular basis while we were at the District that no guards were present at 7 a.m. when their shift reportedly ended.

Agricultural Waste - The District paid over \$1.9 million over 33 months to a contractor from Connecticut and Rhode Island to dispose of the agricultural waste deposited at the District. The same individual has held this contract for 12 years under various company names. When this contract was last bid in 2003, District records indicate three companies expressed interest, but only one actually bid. We contacted one of the two non-bidders, which was also located out-of-State, and found the vendor did not recall being solicited by the District. The vendor further indicated that had it been solicited, it would not have bid due to the cost of hauling the waste such a long distance.

If the Board is to solicit genuine competition, it must adopt broader advertising practices to ensure goods and services are acquired at the best possible prices.

Accounting and Financial Operations

The Board has vested its responsibility for the day-to-day accounting and financial

operations in its part-time Treasurer and office staff. However, the Treasurer, who is a certified public accountant (CPA), works part-time and essentially performs little more than bookkeeping tasks in exchange for a \$40,000 annual salary and fringe benefits. The full-time office staff has no formal financial education or training, and lacks the knowledge, skills and abilities to perform the necessary tasks. In addition, because the number of staff is small, it is difficult to adequately separate duties for the various financial operations. Under these circumstances, management must provide a greater degree of oversight, but we found that neither the Treasurer nor District management provided sufficient oversight to ensure that proper procedures are followed and that all errors are identified and promptly corrected. As a result, we identified numerous errors with the District's financial records. These errors occurred over an extended period of time and may not have been identified and corrected by the District had we not found them during our audit.

Accounting Functions - In a good system of internal control, the bank reconciliation process should be separated from the check writing and disbursement recording processes. At the District, the Treasurer writes all the checks, posts them to the accounting records and reconciles these records to the bank statements monthly. We found that most of the bank reconciliations performed by the Treasurer during our audit period had errors. As of December 31, 2005, we determined that the main checking account was not reconciled correctly and needed almost \$1,700 in adjustments. We identified six instances where blank checks were missing and where the Treasurer issued checks out of sequence. Many of these errors had been pointed out to the District by the NCC auditors, yet were not corrected.

Another aspect of an effective system of internal control is an annual audit performed by an independent CPA. Such an audit can be an effective oversight tool for the Board and District managers by providing for the timely detection of errors or irregularities. However, the last independent audit of the District's financial statements was for the 2003 calendar year. The 2004 and 2005 calendar years had not been audited.

Inaccurate Reporting of Fringe Benefits - IRS Publication 15-B requires that any person receiving a life insurance policy in excess of \$50,000 from their employer must have the value of the premiums for the amounts in excess of \$50,000 reported as a taxable fringe benefit. We found the District failed to report these taxable fringe benefits to the IRS for 27 staff and Board members. The total amount of unreported "income" exceeded \$37,000 annually. Included in this amount was over \$6,000 of unreported income for each of the three Board members. The District did not pay the Social Security and Medicare taxes due on this income, as well. We also found that the District Superintendent and the Assistant Superintendent are assigned District-owned vehicles. We found that the District did not correctly report this taxable benefit to the IRS for the Superintendent.

Payroll and Personnel - Due to the District's small number of office staff, one payroll clerk is responsible for all payroll and personnel duties, including recording daily attendance, updating employee leave accrual records, preparing the biweekly payroll for submission to the District's payroll processing company, checking the completed payroll, and distributing the checks. This person has not received formal training to accomplish these tasks. In addition, the District does not monitor or review the payroll clerk's work to

ensure it is correct. As a result, errors may go undetected for long periods of time.

We randomly sampled the accrual records of ten non-management employees from a population of 111 employees, as of March 31, 2005. We judgmentally selected ten of 23 management employees as of December 31, 2005 based on employee title. We found leave accrual errors for five non-management and four management employees. One of the leave accrual errors for a non-management employee resulted in a \$169 overpayment. In addition, during another test, we identified one individual who was overpaid \$1,725 in one pay period and underpaid about \$192 in another period. These leave accrual errors would have gone undetected without our audit.

District officials indicated that they plan to correct these payroll problems by utilizing a new automated payroll system. By using this system, management intends to alleviate the human error that now occurs and have District staff act as the monitors of the information on the system. The payroll clerk has received training from the vendor on using the new system, and District officials expect to have the system fully operational by the end of 2006.

Contractor Revenue - The District charges each contractor an annual permit fee of \$150 per vehicle to dump construction waste and agricultural (mostly yard) debris at its solid waste transfer site. In addition, contractors pay a dumping fee of \$45 per ton for agricultural waste and \$85 per ton for construction. The District uses a computerized scale system to weigh the quantity of waste brought into the facility and to compute the related dumping fee, based on the vehicle information entered into the system from the permit application. The

District accepts cash only from the contractors, no checks or credit. One person is responsible for all three tasks of issuing the permits, entering application information on the computerized scale system, and identifying trucks when they arrive to dump their waste. A second person collects the fees based on this person's input, and a third person prepares the bank deposit. Receipts are issued for dumping fees, but not for the permit fees received.

Over 200 permit applications were received during 2005. We found the District does not review the application information entered on the system to ensure it is accurate and complete. Since this operation is a cash only business, it is inherently risky. We compared the applications received in 2005 to the vehicle information (name, permit number, vehicle identification, and weight) recorded on the system, and found the following errors and inconsistencies:

- In 17 instances, the vehicle weights recorded on the system did not match the weights on the applications (in ten instances, the vehicle weight on the system was higher). Accurate weights are important to ensure the correct dumping fees are charged.
- Two applications were not recorded on the system.
- In 11 instances, permits were issued, but there were no corresponding applications on file for us to verify the recorded information.
- In three instances, there were multiple applications for a permit, and each of the applications contained different information, including different owners and vehicles.

We also compared the total revenues computed from the scale system to the total revenues recorded and deposited in the bank for the period January 1, 2003 through December 31, 2005. We found that the District was able to account for over 99 percent of the \$2.6 million in computed revenues over the three-year period.

Recommendations

1. Reduce the level of benefits provided to Board members to a level consistent with similar districts.
2. Reduce the compensation and benefits provided to top management to a level consistent with similar districts.
3. Discontinue the practice of treating the current part-time attorney and accountant as employees and contract for these services as needed.
4. Hire a full-time fiscal officer with the appropriate knowledge and training to oversee the District's fiscal operations on a day-to-day basis.
5. Maintain documentation in support of promotions and/or discretionary raises granted to non-union personnel.
6. Comply with the CSC rules regarding submission of information related to promotions and pay scale changes.
7. Discontinue funding insurance coverage for ineligible individuals.
8. To the extent possible, recover the cost of erroneous insurance payments from the affected insurance companies and/or individuals, as appropriate.

9. Establish procedures to ensure fringe benefits are provided to only eligible individuals.
10. Seek competition for all goods and services in excess of \$10,000.
11. Use State procurement contracts whenever available and economically feasible.
12. Broaden advertising for contract opportunities by posting notices in trade publications and newspapers with a wide public circulation.
13. Solicit competitive proposals for professional services, including insurance, legal, and engineering.
14. Maintain records for each procurement that document the date and time that each bid is received, as well as the date, time and attendance of each bid opening.
15. Evaluate the security vendor's compliance with contract terms, as well as the overall need for security services.
16. Ensure independent financial audits are conducted on an annual basis, and include the 2004 and 2005 calendar years within the scope of future audits.
17. Correct the previous quarterly tax filings to properly reflect taxable fringe benefits and uncollected employment taxes thereon.
18. Correct and reissue Federal W-2 forms to properly account for the taxable fringe benefits of Board members and other staff.
19. Recover salary overpayments identified in this report.

20. Perform a comprehensive review of employee accrual records to identify inaccuracies and resolve any resulting incorrect payments.
21. Ensure the accuracy of vehicle information recorded on the District's computerized scale system.
22. Establish immediate accountability for all funds collected and ensure all receipts are deposited into the bank and recorded on the accounting records daily.
23. Provide administrative staff with the training necessary to competently perform their assigned tasks.

Retirement System

The District participates in the NYSLRS, which has established guidelines for all participating employers to follow when reporting individual member's employment activity. We audited the District's compliance with these guidelines and found the District is generally reporting all applicable employees to the NYSLRS. However, we found the District is not always properly reporting employee service credits. We also found that the District did not maintain any documentation to support the service credits reported for elected and appointed officials.

Membership Reporting

The NYSLRS requires each full-time employee of a participating employer to join the retirement system, with certain exceptions. For employees hired after July 27, 1976, membership is optional if one of the following circumstances is met:

- The position is considered temporary or provisional.
- The employee works less than 30 hours per week, or less than the standard number of hours for full-time positions established by the employer.
- The employee is employed for less than one year, or for less than 12 months a year.
- Annual compensation is less than the State's minimum wage multiplied by 2,000 hours.

For each employee who elects not to join the system, the District is required to keep on file a signed copy of the employee's acknowledgement of their right to membership into the NYSLRS and their decision not to join. Maintaining the required documentation preserves evidence of the employee's decision. In the event that the appropriate documentation is not maintained, the District is potentially at risk of future recourse should the employee invoke his/her right to become a member.

We found all union employees were properly reported as members to NYSLRS. However, we found two Board members were not reported to the NYSLRS, and there was no documentation on file to indicate they elected not to join the system. According to District officials, these Board members were provided the required forms indicating that they did not want to join the NYSLRS, but had never completed or signed them.

Accuracy of Reporting

NYSLRS guidelines require employers to collect data on the service credits for all members of the retirement system and report this information each month to the NYSLRS.

To test the District's compliance, we judgmentally selected a total of 12 months that represented peak and non-peak garbage collection times throughout the 35-month period ended November 30, 2005. For each month, we randomly selected ten employees for a total of 77 (excluding duplicates) to be reviewed from a total population of 1,327 employees. We compared the days reported on the monthly retirement reports the District had filed for each of these employees to the days they had reportedly worked, as indicated on their District attendance records. We determined the District incorrectly reported the number of days worked to NYSLRS for three employees. Two employees received more service credits than they had earned (i.e., one and three days, respectively). One individual received less service credit than he had earned (i.e., one day).

Elected and Appointed Officials

The NYSLRS guidelines recognize that elected and appointed officials do not usually have pre-set work hours. Therefore, to determine the number of days worked for retirement credit purposes, the guidelines require the Board to pass a resolution establishing the standard workday. The Board should then have each elected and appointed official maintain a log of the time spent on the activities related to their positions for a sample one-month period. The hours worked per the log should then be divided by the standard workday to determine the total days worked in a month. The District should then report this amount of service credit each month for the employee's term of appointment.

We found that in 1990 the District established a standard workday of six hours. However, the Board has never instructed appointed and elected officials (the three Board members

who belong to the NYSLRS, the Secretary to the Board, and the Treasurer) to track their activities, as required. As a result, the District has no documentation to support any of the service credits reported for these individuals, four of whom have been reported as full-time employees. Subsequent to our audit, District officials told us that they filed amendments with the NYSLRS to more accurately reflect the actual service credits. However, since the District does not have any logs of activities, there is no assurance that the corrected reports were accurate.

Recommendations

24. Maintain a signed form for each employee who elects not to join the NYSLRS.
25. For elected and appointed officials, determine the service credits to be reported based upon the number of hours actually worked.
26. Maintain a record of activities for a period of one month for each elected/appointed position that accurately reflects the amount of time spent on official District activities. Periodically update this record.
27. Where appropriate, file an adjustment with the NYSLRS to accurately reflect retirement service credits earned for District employees. Contact the NYSLRS Report Control Unit for assistance in addressing this issue.
28. Seek additional training opportunities with the NYSLRS to assist in proper reporting procedures.

AUDIT SCOPE AND METHODOLOGY

We audited the District's financial management practices for the period January 1, 2003 through April 28, 2006. To accomplish our audit objective:

- We interviewed appropriate Board members, officers and employees, tested selected records and transactions, and reviewed prior audit reports on District activities.
- We examined the District's disbursements journals, cancelled checks, and bank statements from January 1, 2003 through September 30, 2005 to ensure all transactions were properly reported and accounted for in the District's accounting records.
- We reviewed all contracts for goods and services entered into during the audit period to determine if the District procured goods and services economically, while safeguarding District assets. We also reviewed, where available, advertisements, bid specifications, tabulation sheets, and bid awards.
- We reviewed the District's written policies and procedures for payroll and procurement and interviewed appropriate District officials and staff about their cash receipts and disbursements, payroll, procurement, and NYSLRS procedures to determine if the District has sufficient internal controls over these financial areas.
- We reviewed the Board meeting minutes for the period January 1, 2003 through December 31, 2005 to determine if the Board was meeting its fiduciary responsibilities.

- We reviewed District policies for providing various health and life insurance benefits to its current and former employees and reviewed personnel files to determine if these policies are followed.
- We reviewed payroll records and personnel files to determine if the District paid employees properly for the time they worked, maintained accurate leave accrual records for all employees and followed correct procedures for hiring and promoting employees. We also reviewed these records to ensure that the District is complying with NYSLRS policies for reporting employee work credits monthly.

We conducted our audit in accordance with generally accepted government auditing standards. We based our performance criteria for this examination on good management practices, the District's internal written policies and procedures, District contracts with the union representing the sanitation workers, certain statutory requirements prescribed by General Municipal Law, and requirements prescribed by NYSLRS.

AUTHORITY

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by District officials.

REPORTING REQUIREMENTS

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in

Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they will initiate corrective action. Appendix B contains State Comptroller Comments which address matters of disagreement contained in the District's response and changes to the final report based on the District's response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. For guidance in preparing the plan of action, the Board may refer to the applicable sections in

the publication offered by the Office of the State Comptroller entitled *Local Government Management Guide*. We encourage the Board to make this plan available for public review in its office.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include Frank Houston, John Buyce, Myron Goldmeer, Greg Petschke, Andrew Davis, Kamal Elsayed, Kelly Evers, Jacqueline Keeyes-Holston, Charles Johnson, Chris Morris, Richard Podagrosi, and Paul Bachman.

APPENDIX A - AUDITEE RESPONSE

COMMISSIONERS
JOSEPH CANDELLA, CHAIRMAN
JACK ROSE, JR., SECRETARY
IRVING J. KAMINETSKY
HARRY BELTRANI
JAMES VILARDI

PHILIP MISTERO, SUPERINTENDENT
JOSEPH G. KENN, ASST. SUPERINTENDENT

TELEPHONE: (516) 239-5600
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SANITARY DISTRICT NO. 1
TOWN OF HEMPSTEAD
BAY BOULEVARD - P.O. BOX 342
LAWRENCE, NEW YORK 11559-0342
October 23, 2006

Mr. Frank J. Houston
Office of the State Comptroller
Division of Municipal Affairs
123 William Street
New York, New York 10038-3804

Re: Report 2005-S-69

Dear Mr. Houston:

On or about August 29, 2006, the Board of Commissioners (the "Board") of Sanitary District No. 1, Town of Hempstead (the "District") received the Comptroller's Report of Examination for the 40 month period commencing January 1, 2003 and ending April 28, 2006 (the "Report").

Pursuant to Subdivision 4 of Section 35 of the General Municipal Law, the Board has authorized the preparation of (and hereby submits) this written Response to the Report. A copy of this Response is being filed in the office of the District as a public record for inspection by all interested persons. In addition, the Board will prepare and submit a Plan of Action within ninety (90) days of the issuance of the final report.

Preliminary Statement

In the preparation of this Response, the District's Board has focused on the findings and recommendations contained in the Report and has organized this Response in the same sequence presented in the Report (see Supplement to the December, 1988 Governmental Affairs Review at p. 3) and has complied with the provisions of General Municipal Law, Section 35 subd. 4(b)(2).

Introduction

The Report is based on the Comptroller's examination that commenced November 10, 2005 and was on-going to the September 8, 2006 exit conference and

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involved at least twelve (12) "major contributors" (Report at p. 18). The Report followed an examination conducted by the Office of the Nassau County Comptroller which began March 21, 2005 and culminated in a report of "preliminary findings" dated September 8, 2005.

While the Report does not cite any defalcation, nor violation of law, it recommends various managerial changes which the Comptroller believes are in the best interest of the residents of the District. Accordingly, the District will proceed to implement those measures recommended by the Report to the extent outlined in this response and the Plan of Action to follow.

Discussion

The headings which follow are those found in the Report.

Background

The Report lists communities served by the District, but does not include within the geographical area serviced by the District the incorporated villages of Hewlett Harbor, Hewlett Neck, Woodsburgh, Hewlett Bay Park, Meadowmere Park and the unincorporated area of Lynbrook. Thus, the District is responsible for the collection and disposal of solid waste in an area somewhat larger than cited in the Report.

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Comment
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The Report refers to "average tax levy per parcel" (Report at p. 4) without making reference to the fact that the District's "tax rate" for collection and disposal is the lowest in the Town of Hempstead by as much as 50 percent when compared with other Districts such as No. 2 and No. 6. Annexed to this Response as an Exhibit "A" is a compilation of the Sanitary District taxes within the Town of Hempstead.

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Comment
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Audit Findings and Recommendations

While the report juxtaposes Sanitary District #1 with "other comparable sanitary districts" (Report at page 5.), the District believes that they are not comparable since they are merely "collection" districts and do not operate a recycling facility and do not act as a transfer facility as is the case with the District. In addition, the District provides "rear-yard" collection services and not simply "curb-side" service as do the "collection" districts. The disparity between the District and the "collection" districts is more than sufficient reason for the disparity in compensation and benefits that may exist which is not precluded by any law. As the Report readily observes, "there are no legal limits *** (Report at p. 5).

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Comment
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* See State Comptroller's Comments, page 29

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The portion of the report dealing with the District's professionals (e.g. general counsel, accountant-treasurer and engineers) is not fair. In this connection, the Report does not acknowledge that it is well-settled law in this state that contracts for professional services requiring specialized skill and expertise are exempt from statutory competitive bidding requirements. Zack Assoc., Inc. v. Setauket Fire Dist., 12 A.D.3d 439 (2nd Dept.2004); and Giustino v. County of Nassau, 306 A.D.2d 376 (2nd Dept.2003). Thus,, the Report, seeks to impose a standard not prescribed by any applicable law and not followed by other governmental entities in the County of Nassau. With regard to insurance brokers, as indicated at the conference held in October, the District will outline a procedure for an RFP in the Plan of Action to be submitted.

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Comment
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Health Insurance

The District reviewed the status of each of the employee accounts cited in the Audit Report. According to the most recent calculations, \$118,000.00 has been accounted for either in the form of COBRA payments by the individuals (\$71,759.00), credits received from the Health Insurance Program (\$40,802.00), or confirmation of the proper classification of one individual as a Family coverage recipient due to the existence of an eleven year old dependent (\$5,518.00).

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Comment
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- With regard to the deceased retired employee, the District received a credit of \$6,049.00 from the Health Insurance Program and is reviewing its legal options with regard to the \$10,000.00 balance of the account including seeking an "appellate" review by the New York State Civil Service Employee Benefits Division.
- Concerning the three retired employees where either the employee or a spouse died, the District has taken action following the advice from the State Auditors as follows:
 - a. In the case of one former employee, a full credit of \$1,245.00 was received:
 - b. In the second case, the former employee had an eleven year old dependent as cited above and the payment was proper; and
 - c. In the third case, the Health Insurance Program has issued nearly a full credit of \$9,400.00.

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Comment
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Regarding the five employees who terminated their employment prior to reaching retirement age, cancelled checks received from the District banking institution have been accepted by your office as documentation of the full receipt of the \$71,759.00

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Comment
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from two individuals in the form of COBRA payments. Full credit for a third individual has been received from the Health Insurance Program in the sum of \$11,267.00 and partial credit has been received for the remaining two former employees in the total sum of \$12,841.00. The balance due from one of these individuals is being pursued from the New York State Civil Service Employee Benefits Division and in the other case is still under review as the employee made COBRA payments to age 55 and thereafter retired.

The Audit's recognition of the "small number of office staff" and the need for "training necessary to competently perform their assigned tasks" has been reviewed by the District as it relates to the issues cited in this segment of the report. While the errors made have or will be substantially corrected, the District seeks to eliminate the potential for repetition and is evaluating the possibility of employment of a Deputy Treasurer, Civil Service Senior account clerk, administrative assistant or other appropriately titled individual to perform daily bookkeeping and verification tasks. This potential will be fully addressed in the Plan of Action to be forwarded to the Comptroller's office. In the meantime, redundancy has been implemented by requiring two current staff members to review all such Health Insurance (or for that matter Dental and Vision coverage) transactions daily.

Procurement Services

It should be observed that competitive bidding is only required when it is known, or can reasonably be anticipated, that the amount to be spent on like items or services will exceed the competitive bidding threshold over the course of a fiscal year. Since the District's needs could not be reasonably predicted in advance, the District was not required to solicit competitive bids under General Municipal Law, Section 103. Nevertheless, the District followed the mandate of General Municipal Law, Section 104-b, to insure prudent and economical use of public moneys in the best interests of the taxpayers and so as to guard against favoritism, fraud and corruption.

Clarity is sought with respect to the "lumping" of dollar figures that create the impression that the amounts refer to a single calendar year when in fact they cover 40 months or 3-1/3 years. This issue was discussed at the exit conference.

To some extent, the Report creates the impression that the District did not adopt policies and procedures governing the procurement of goods and services when public advertisement for bids is not required by the General Municipal Law. In fact, the District established a procurement policy, and an implementing resolution of the District's Board of Commissioners was adopted as reflected by the minutes of the regular meeting of the Board of Commissioners held on August 28, 1991.

In sum, although purchases through State Contracts are exempt from the competitive bidding requirements of General Municipal Law, Section 103, and

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* See State Comptroller's Comments, page 29

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although the District has in the past made certain purchases pursuant to State Contracts, the District intends in the future to follow the recommendation of the Report to insure the prices in the State Contracts are fully explored before contract awards are made.

The recommendation to expand advertising to other new media and trade journals will be addressed in the Plan of Action.

Accounting and Financial Operations

The District's Board recognizes that it is responsible for establishing and maintaining an effective internal control structure to ensure that appropriate goals and objectives are met and District resources are safeguarded. With this principle in mind, the District is committed to correcting errors revealed by State Auditors and improving the status of the nature of its operations as follows:

First: The District has embraced the recommendation to ensure that financial audits are conducted on an annual basis including the 2004 and 2005 calendar years. To this end, the District engaged the services of R.S. Abrams & Co., CPA's; and

Second: The District has also directed the outside auditor to study the internal controls of the District and assist in the implementing and improving current District procedures; and

Third: As stated above, the Plan of Action will address the hiring of appropriate personnel to perform the daily bookkeeping and verification tasks required, and on an interim basis, a Supervisor will provide a temporary separation of duties with respect to general ledger and check-writing as suggested by the State Auditors. In addition, the clerical error cited of issuing checks out of sequence is no longer possible under the computerized system for check-writing.

Fourth: The leave accrual errors cited in the report have been corrected in all cases. In one instance, the overpayment was charged to accrued vacation and in the second case a one (1) day accrual occurred a single day early (9/26/05 vs. 9/25/05). Nevertheless, the District again is not satisfied that such errors occur in the first place and fully expects that the collective changes in operating procedure will have a positive result and thereby avoid repetition. To insure that this occurs, the District, once again, has asked its outside CPA firm to review its procedures and make recommendations for improvement believing that its obligations to the public require nothing less.

Fifth: The District has reviewed the Report's recommendations and narrative regarding taxable fringe benefits and will report the taxable amount to the Internal

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Revenue Service for the next reporting period. Consultation with the outside CPA firm will be undertaken with respect to prior periods.

Sixth: The policy of the District has always been to deposit all cash receipts on a daily basis; in January and February of each year, when receipts are at their lowest volume, deposits were made at least twice weekly after the cash was secured in the District safe. This practice will be discontinued and all cash deposits will be made daily and recorded. Temporarily, the Supervisor will oversee this function and the Plan of Action will cover this issue:

Seventh: Reporting of the Treasurer's time to the NYSLRS has been adjusted to reflect his part-time status with the District, though the previous reporting did not alter his status in the retirement system.

Eighth: The District will empanel an audit committee to be comprised of:

- a. Two members of the Board of Commissioners;
- b. Superintendent;
- c. Assistant Superintendent;
- d. Treasurer;
- e. Deputy Treasurer/Accounting/Clerk (newly created position); and
- f. Representative of Independent Auditing Firm.

The audit committee will meet once quarterly and prepare a report to be submitted to the Board of Commissioners no later than ten (10) days from the date of the quarterly meeting. In addition, the Treasurer will submit quarterly audits of all district operations to the Audit Committee;

The Independent Auditing Firm and Treasurer shall create a "checks and balances" system to ensure accurate fiscal management in the areas of insurance compensation, retirement system, cash receipts, deposits, etc.

The Treasurer shall submit the annual budget to Audit Committee a minimum of thirty (30) days prior to the required adoption date.

Retirement Reporting for Elected and
Appointed Officials

The District takes the posture that Tier 1 members are not and may not be made subject to the "standard work day" of six or more hours and that the reporting of

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time worked does not apply to Tier I members. The District has, however, previously on September 5, 1990 enacted an appropriate resolution to establish the standard work day for retirement service reporting purposes and the number of days worked to be reported for those not in Tier I membership.

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Comment
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Recommendations

Most of the 28 Recommendations itemized at pages 13-14, 16 of the Report have already been responded to in what has been above set forth. However, to facilitate the reader's task, the Recommendations are treated seriatim:

1. The District will address Board member benefits in its Plan of Action; preliminarily, however, the Board adopted a Resolution on October 18, 2006, limiting Board members first elected after July 1, 2005 to \$50,000.00 in Life Insurance coverage with the consent of the Board member thereafter elected.

2. The compensation and benefits provided management personnel will be reviewed upon anticipated vacancies.

3. The practice in question lies within the sole discretion of the Board and is amply supported by case law. Nevertheless, the Board will consider the issue and report its determination in the Plan of Action.

4. As stated above, the Plan of Action will address the hiring of appropriate personnel to perform the daily bookkeeping and verification tasks required. As indicated at the October conference, the Treasurer will voluntarily relinquish Health and Life Insurance benefits to assist in the funding of the new position.

5. The District will maintain the suggested documentation in relation to promotions and raises granted to non-union personnel.

6. Compliance with the referred to CSC rules will be implemented.

7. Appropriate measures will be established to avoid the future funding of insurance coverage for ineligible individuals.

8. All effort will be made by the District to recover the costs in question

9. This recommendation will be promptly implemented to the extent not yet in place.

10. The District is in full compliance with bidding requirements and will expand the scope of advertising, when necessary, to attract potential bidders in accordance with the Plan of Action.

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Comment
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11. The suggestion that State procurement contracts be used whenever available and economically feasible is one the District will adopt.

12. See number 10.

13. Competitive proposals for professional services are beyond the ambit of law and exempted from statutory competitive bidding requirements. Nevertheless, the District will include an RFP for Insurance as part of its Plan of Action.

14. Records regarding bid openings are in fact maintained by the District, but consideration will be given to organizing the records in a different manner so as to make it easier for the records to be understood.

15. While the District believes security services are required, it will audit its current contractor and take appropriate action, including establishing time clock posts.

16. The District has already retained the services of an independent auditor; and the suggested annual audits will be performed as they were in the past, except for the year 2004 which has now been completed together with 2005.

17. To the extent required by applicable Federal and State tax regulations, this recommendation will be followed.

18. To the extent required by applicable Federal and State tax regulations, this recommendation will be followed.

19. To the extent salary overpayments are, in fact, identified, the District will aggressively pursue recoupment.

20. This recommendation is in the process of being followed.

21. This recommendation is in fact followed by the District to ensure accuracy of vehicle information. Additional managerial changes will be included in the Plan of Action.

22. All funds are in fact accounted for. As stated above, the making of "daily" bank deposits will be accomplished..

23. While some in-service training has been implemented, the District will intensify its efforts to see to it that office personnel attend training programs and continuing education seminars.

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Comment
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24-28. These recommendations will be implemented (except as to Tier I if not already in place). Of course, training opportunities will be taken advantage of whenever available.

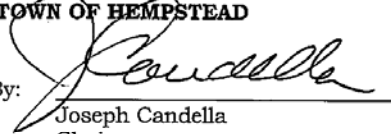
Management Documentation Letter

Supplied to representatives of the State Comptroller's Office at the September 8, 2006 exit conference.

Very truly yours,

**SANITARY DISTRICT NO. 1,
TOWN OF HEMPSTEAD**

By:



Joseph Candella
Chairman
Board of Commissioners

EXHIBIT A

SANITARY DISTRICTS 2006

| | CLASS | District Tax Levy | Tax Rate + | TOH Refuse Disposal District Rate = | Total Combined Rate | Taxable Valuation | TOH Refuse Disposal District |
|----------------------------|-------|----------------------|------------|---|---------------------------|----------------------|---------------------------------------|
| SANITARY DIST # 1 | | | | | | | |
| [1-4 family Residential] | 1 | 8,386,572.85 | 21.49 | 0.00 | 21.49 | 39,025,467.00 | - |
| [5 plus Multi Dwelling] | 2 | 672,507.34 | 33.86 | 0.00 | 33.86 | 1,986,141.00 | - |
| [Utilities] | 3 | 1,676,111.90 | 129.102 | 0.00 | 129.102 | 1,298,285.00 | - |
| [Commercial & other] | 4 | 3,523,372.26 | 39.016 | 0.00 | 39.016 | 9,030,583.00 | - |
| Total | | 14,258,564.35 | | none | | 51,340,476.00 | |
| TOH Disposal Tax | | - | | | | | |
| Cost to Taxpayers | | 14,258,564.35 | | | | | |
| SANITARY DIST # 2 | | | | | | | |
| [1-4 family Residential] | 1 | 6,774,646.40 | 29.146 | 11.575 | 40.721 | 23,243,829.00 | 2,690,473.21 |
| [5 plus Multi Dwelling] | 2 | 228,255.65 | 55.571 | 19.839 | 75.41 | 410,746.00 | 81,487.90 |
| [Utilities] | 3 | 969,220.39 | 185.705 | 70.677 | 256.382 | 521,914.00 | 368,873.16 |
| [Commercial & other] | 4 | 1,417,133.08 | 56.805 | 20.639 | 77.444 | 2,494,733.00 | 514,887.94 |
| Total | | 9,389,255.52 | | | | 26,671,222.00 | 3,655,722.21 |
| TOH Disposal Tax | | 3,655,722.21 | | | | | |
| Cost to Taxpayers | | 13,044,977.73 | | | | | |
| SANITARY DIST # 6 | | | | | | | |
| [1-4 family Residential] | 1 | 15,230,147.38 | 30.878 | 11.575 | 42.453 | 49,323,620.00 | 5,709,209.02 |
| [5 plus Multi Dwelling] | 2 | 237,106.78 | 56.694 | 19.839 | 76.533 | 418,222.00 | 82,971.06 |
| [Utilities] | 3 | 2,175,707.71 | 192.983 | 70.677 | 263.66 | 1,127,409.00 | 796,818.86 |
| [Commercial & other] | 4 | 3,944,462.61 | 59.407 | 20.639 | 80.046 | 6,639,727.00 | 1,370,373.26 |
| Total | | 21,587,424.48 | | | | 57,508,978.00 | 7,959,372.19 |
| TOH Disposal Tax | | 7,959,372.19 | | | | | |
| Cost to Taxpayers | | 29,546,796.67 | | | | | |
| SANITARY DIST # 7 | | | | | | | |
| [1-4 family Residential] | 1 | 3,158,515.14 | 17.243 | 11.575 | 28.818 | 18,317,666.00 | 2,120,269.84 |
| [5 plus Multi Dwelling] | 2 | 174,781.90 | 33.144 | 19.839 | 52.983 | 527,341.00 | 104,619.18 |
| [Utilities] | 3 | 1,698,878.46 | 100.52 | 70.677 | 171.197 | 1,690,090.00 | 1,194,504.91 |
| [Commercial & other] | 4 | 1,154,935.94 | 33.735 | 20.639 | 54.374 | 3,423,554.00 | 706,587.31 |
| Total | | 6,187,111.44 | | | | 23,958,651.00 | 4,125,981.24 |
| TOH Disposal Tax | | 4,125,981.24 | | | | | |
| Cost to Taxpayers | | 10,313,092.68 | | | | | |
| Town of Hempstead - | | | | | | | |
| [1-4 family Residential] | 1 | 16,193,328.31 | 14.319 | 11.575 | 25.894 | 113,089,799.00 | 13,090,144.23 |
| [5 plus Multi Dwelling] | 2 | 294,694.13 | 23.707 | 19.839 | 43.546 | 1,243,068.00 | 246,612.26 |
| [Utilities] | 3 | 2,884,741.35 | 90.132 | 70.677 | 160.809 | 3,200,574.00 | 2,262,069.69 |
| [Commercial & other] | 4 | 7,475,986.10 | 24.093 | 20.639 | 44.732 | 31,029,702.00 | 6,404,220.20 |
| Total | | 26,848,749.89 | | | | 148,563,143.00 | 22,003,046.38 |
| TOH Disposal Tax | | 22,003,046.38 | | | | | |
| Cost to Taxpayers | | 48,851,796.27 | | | | | |
| | | | | | | | 37,744,122.02 |

APPENDIX B - STATE COMPTROLLER'S COMMENTS ON AUDITEE RESPONSE

1. Certain matters presented in the draft report were revised in this final report based on the response of District officials.
2. We do not refer to the District's "tax rate" because it is not a measure of the District's efficiency. Rather, the tax rate is simply the method used to determine the taxable amount to be levied on a property. Each local governing body (e.g., Sanitary District No. 1) determines its own budget. The amount of that budget to be raised by taxes divided by the assessed property value from the jurisdiction equals the tax rate per \$100 of assessed valuation. For example, if two districts have the same budgets, the district with the higher property value will have a lower tax rate. The December 2005 report issued by the Nassau County Comptroller's Office (NCC), entitled *Nassau County Special Districts: The Case for Reform*, states, "we reviewed the costs of solid waste collection and disposal by various county municipal entities, and noted that large town-run districts and districts that contract out services are both more efficient and cost less to operate than Hempstead's commissioner-run special districts 1, 2 and 6. Further, the higher tax levies in these three districts compared to other districts are not explained by differences in the quality and scope of the services they provide."
3. We believe that while each district is different in some respects (e.g., size of budget, number of employees, number of customers, services, etc.), overall they are comparable. For example, although Sanitary District 6 does not have a recycling facility, it has twice as many residential customers and twice the number of employees as District 1, and a 50 percent higher operating budget. Further, although District 1 has a recycling facility, it is operated by an outside vendor under contract with the district. The District has also hired a consultant to oversee the operation of the recycling facility. All things considered, we believe the compensation and benefits provided to the District's top management should be more inline with similar districts.
4. We agree that the law does not require that service contracts be formally bid or awarded solely based on price, as do contracts for materials, equipment and supplies; however, the Board and management have a fiduciary responsibility to ensure they are acquiring qualified services at a fair and reasonable price. Our report recommends the Board solicit proposals from several qualified professionals to ensure appropriate value is acquired.
5. District officials note that competitive bidding is only required when it is known, or can be reasonably anticipated, that the amount spent will exceed the competitive bidding threshold. Officials further contend that in the cases cited in the report, the District's needs could not be reasonably predicted in advance. While unforeseen circumstances may account for some of the 15 vendors who were paid more than \$10,000 during a single year, management should have been able to recognize the spending patterns associated with the 20 vendors who were paid over \$100,000 (an average of \$30,000 per year) during the audit period.

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6. NYSLRS rules do not grant the Board the discretion to establish by resolution the number of reported work days. Instead, this determination must be made based on a documented analysis of actual time worked by each individual during a sample month.