



Plainview Water District Board Oversight and Other Financial Related Activities

Report of Examination

Period Covered:

January 1, 2010 — April 30, 2011

2012M-35



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2012

Dear District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Plainview Water District, entitled Board Oversight and Other Financial Related Activities. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Plainview Water District (District), located in the Town of Oyster Bay in Nassau County, provides water to about 36,000 residents. A three-member elected Board of Commissioners (Board) is responsible for overall governance of the District including adoption of an annual budget, approval of water rates, and key internal policies. The Board appointed one of its members as Treasurer, who serves as the chief financial officer and is responsible for the custody, disbursement, investment, and oversight of all District funds. The District Superintendent (Superintendent) is responsible for reporting to the Board and supervising District personnel.

The fiscal year 2010 operating budget was \$6,058,654, and actual expenditures equaled \$6,827,984. The 2011 operating budget was \$6,326,126 and actual expenditures were \$6,912,682.

Scope and Objective

The objective of our audit was to determine whether the Board had established adequate internal controls over financial operations and information technology (IT) for the period January 1, 2010 to April 30, 2011. In analyzing fund balance trends, we also included the 2007 through 2011 fiscal years. Our audit addressed the following related questions:

- Has the Board provided adequate oversight of District operations to safeguard District assets?
- Were internal controls over the Treasurer's duties properly designed to ensure adequate segregation of duties, compliance with legal requirements, and protection of District assets?
- Have user access controls been implemented and are they effective to secure IT resources?

Audit Results

The Board needs to improve its oversight of the District's financial operations and ensure that employees' access rights to financial data are appropriately restricted.

The Board did not require or review budget status reports, resulting in the over-expenditure of the general fund by \$769,330 in 2010. District officials made more than \$1 million in budget transfers for the 2010 fiscal year which were prepared and reported after the year had ended, instead of monitoring and amending the budget during the fiscal year. By not authorizing budget transfers prior to over-expending appropriations, the Board is not in compliance with statutory requirements.

Furthermore, the District has over \$2.7 million of available capital reserve funds, yet the District continued to issue debt to finance capital projects. As a result, significant public moneys were withheld from productive use.

We also found that, of the \$40,210 in credit card payments we reviewed, 34 charges totaling \$5,486 were not adequately supported, and the District prepaid \$1,995 in tuition for an employee who did not meet policy requirements. The Board's insufficient oversight of these financial functions increases the risk of errors and irregularities.

Additionally, the District's code of ethics did not address or establish procedures in relation to hiring, supervising, and evaluating the performance of family members. In two instances, we found no indication that Board members recused themselves when members of their immediate families were appointed as District employees, and the Board meeting minutes did not reference these appointments or set the amount of compensation. As a result, there could be the appearance of favoritism or impropriety.

District officials also did not conduct a cost-benefit analysis before purchasing and assigning a new vehicle to the Superintendent, and could have saved \$8,206 annually by reimbursing the Superintendent for the business use of his own vehicle. Additionally, the Superintendent's annual leave accruals exceeded the provisions of his employment agreement, and the contractual provisions for sick leave were unclear.

The Board also allowed the Clerk to the Board (Clerk) to perform many of the Treasurer's duties without adequate oversight or compensating controls. The Clerk handled most cash receipt duties and performed inter-fund electronic transfers without prior approval. Further, the Board allowed a third-party administrator to write checks from the District's dental plan bank account without prior Board audit of the claims.

Finally, District officials did not ensure that user access to computerized financial data is appropriately restricted, that access changes are properly authorized and documented, or that management periodically reviews detailed logs of system activity. Therefore, there is an increased risk that sensitive or critical data could be misused or corrupted by unauthorized users.

Comments of Local Officials

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix B, have been considered in preparing this report. District officials generally disagreed with our findings and recommendations, and indicated they would take limited corrective action. Appendix C contains our comments on issues raised in the District's response.

Introduction

Background

The Plainview Water District (District) is located in the Town of Oyster Bay (Town), in Nassau County. The District provides water service to approximately 10,950 customer accounts that include approximately 36,000 residents. The District's main governance is by a three-member elected Board of Commissioners (Board) comprising a Chairman, a Secretary, and a Treasurer. The Board is responsible for the overall financial management of the District and for monitoring its operations, including adopting an annual budget, fixing salaries of District employees, authorizing capital acquisitions, and adopting policies and procedures to safeguard District assets.

A Board member serves as District Treasurer (Treasurer). The Treasurer is the chief financial officer and is responsible for the custody, disbursement, investment, and oversight of all District funds. The District Superintendent (Superintendent) is responsible for reporting to the Board and supervising District personnel. The District has three consultants who maintain its information technology (IT) and financial accounting systems.

The District's major revenue sources are real property taxes collected by the Town and remitted twice a year, and water meter sales due from customers quarterly. The 2010 operating budget was \$6,058,654; actual expenditures were \$6,827,984 and revenues were \$6,990,208. The District's budgeted appropriations for the 2011 fiscal year were \$6,326,126 and its actual expenditures were \$6,912,682.

Objective

The objective of our audit was to assess the internal controls over the District's financial operations and other financial related activities. Our audit addressed the following related questions:

- Has the Board provided adequate oversight over District operations to safeguard District assets?
- Were internal controls over the Treasurer's duties properly designed to ensure adequate segregation of duties, compliance with legal requirements, and protection of District assets?
- Have user access controls been implemented and are they effective to secure IT resources?

Scope and Methodology

We examined the internal controls over the District's financial operations and information technology (IT) for the period January 1, 2010 to April 30, 2011. In analyzing fund balance trends, we also

included the 2007 through 2011 fiscal years. Our audit disclosed areas in need of improvement related to some IT controls. Because of the sensitivity of some of this information, certain vulnerabilities are not discussed in this report, but have been communicated confidentially to District officials so they could take corrective action.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix D of this report.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix B, have been considered in preparing this report. District officials generally disagreed with our findings and recommendations, and indicated they would take limited corrective action. Appendix C contains our comments on issues raised in the District's response.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Clerk to the Board's office.

Board Oversight

The Board is responsible for establishing sound internal controls over District operations. This responsibility entails adopting policies and procedures to safeguard District assets, ensuring compliance with statutes, rules, and regulations, monitoring District finances, and overseeing the use of District assets. Board oversight requires periodic assessments of the District's operations and fiscal affairs and review of established policies and procedures for effectiveness.

The Board did not monitor the District's budget, resulting in the over-expenditure of general fund appropriations by \$769,330 in 2010. Further, the District made \$1,051,000 in budget transfers after the end of the fiscal year, and avoided a potential budgetary deficit only because the Board underestimated revenues by \$1,206,554. In addition, the District's total accumulated fund balance was \$5.3 million at the end of 2010 (88 percent of the entire budget) and \$4.6 million at the end of 2011. Although District officials attempted to reduce fund balance by building capital reserves, they did not use the \$2.7 million capital reserve but instead funded \$1.4 million in capital project expenditures from operating funds and proceeds of debt issuance. The Board also allowed the Clerk to the Board to perform many of the Treasurer's duties without adequate oversight or mitigating controls, and allowed a third-party administrator to write checks from the District's dental plan bank account without the Board's prior audit and approval of the claims.

Additionally, the District's code of ethics did not address or establish procedures in relation to hiring, supervising, and evaluating the performance of family members. In two instances, we found no indication that Board members recused themselves when members of their immediate families were appointed as District employees, and the Board meeting minutes did not reference these appointments or set the amount of compensation. As a result, there could be the appearance of favoritism or impropriety.

District officials also did not prepare a cost-benefit analysis before purchasing a new vehicle and assigning it to the Superintendent. The District could have saved more than \$41,000 over five years by reimbursing the Superintendent for the business use of his personal vehicle instead. We also found that the Superintendent does not maintain a daily work log or use the District's time clock system to account for time worked, as required for District employees, and received annual leave that exceeded contractual provisions by seven days during 2010 and 2011. Further, because certain contractual

provisions are unclear, the District could grant the Superintendent leave time to which he may not be entitled.

Fiscal Management

Effective fiscal management requires the Board to adopt realistic, structurally balanced budgets that provide for recurring revenues to finance ongoing operations. A key element of the budgeting process is an accurate estimate of fund balance that will be available at the end of the fiscal year, so that District officials can establish necessary reserves, appropriate funds for the ensuing fiscal year, and retain sufficient unexpended surplus funds¹ for emergencies. If these practices are followed, the District's use of taxpayer resources will not exceed what is reasonably necessary.

Budget Monitoring – Town Law, guidance from the State Comptroller's Office, and good budgetary controls require the Board to monitor the budget throughout the fiscal year and authorize budget amendments by resolution before appropriations become over-expended.

The Board did not monitor the budget on an ongoing basis, but instead allowed management to incur expenditures exceeding budget appropriations. The Board delegated the budgetary amendment responsibility to the District's external accountants without requiring the Board's prior review and approval. The accountants' schedule showed budget transfers totaling \$1,051,000² for the 2010 fiscal year which were prepared and reported after the year had ended, and the District exceeded the general fund's total adopted budget appropriations by \$769,330. The District avoided a budgetary deficit, finishing the year with an operating surplus of \$162,224, only because the Board underestimated revenues by \$1,206,554³ in its 2010 adopted budget. By not authorizing budget transfers prior to over-expending appropriations, the Board is not in compliance with statutory requirements.

¹ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

² Including a transfer of \$108,563 to the capital projects fund for unexpected capital outlays, for which an appropriation had not been provided in the budget

³ Most of the positive variance was due to unexpected revenues of \$742,048 from litigation settlement proceeds and \$416,665 from water sales in excess of budget estimates.

During the 2011 fiscal year, revenues were not sufficient to fund appropriations, and the District sustained a year-end operating deficit of \$752,575. The Board was able to appropriate the \$752,575 needed for operating expenditures from the District’s fund balance. This is a reactive means of balancing the budget (like the budget transfers made after appropriations were over-expended in the previous year) and is not a prudent long-term strategy. Instead, District officials should establish realistic budgets so that revenues are sufficient to fund expenditures.

Fund Balance – Fund balance is the difference between revenues and expenditures accumulated from prior fiscal years. After the Board makes budgetary appropriations for the next fiscal year and sets moneys aside for any legally authorized reserves, it may retain a portion of fund balance (unexpended surplus funds) as a financial cushion for unexpected expenses. However, if the retained amount of unexpended surplus funds is too high, the District may be withholding funds that could be used more productively. The Board should monitor changes in fund balance and adopt a formal policy on its use and the level to be maintained in the best interest of the District’s residents.

The Board did not develop policy guidance for the appropriate accumulation and use of fund balance. The District incurred significant fluctuations in operating results, and accumulated excessive fund balance, from 2007 through 2011. The District’s total fund balance at the end of 2010 was \$5,331,581 (88 percent of the total year’s budget), and at the end of 2011 was \$4,579,006 (69 percent of the 2012 budget). Total fund balance decreased in 2011 because the District sustained an operating deficit of \$752,575, as shown in Table 1.

| | 2007 | 2008 | 2009 | 2010 | 2011 | Change 2007-2011 |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|-----------------------------|
| Beginning Fund Balance | \$4,154,134 | \$4,594,436 | \$5,663,511 | \$5,169,357 | \$5,331,581 | \$1,177,447 |
| Revenues | \$6,134,342 | \$6,146,005 | \$5,810,109 | \$6,990,207 | \$6,160,107 | \$25,765 |
| Expenditures | \$5,694,040 | \$5,076,930 | \$6,304,263 | \$6,827,983 | \$6,912,682 | \$1,218,642 |
| Operating Surplus/(Deficit) | \$440,302 | \$1,069,075 | (\$494,154) | \$162,224 | (\$752,575) | (\$1,192,877) |
| Total Fund Balance | \$4,594,436 | \$5,663,511 | \$5,169,357 | \$5,331,581 | \$4,579,006 | (\$15,430) |

District officials attempted to reduce the District’s unrestricted fund balance by building and maintaining the District’s reserves. However, even though the capital project reserve (for water tank rehabilitation

and related improvements) totaled over \$2.7 million in each of the 2008 through 2010 fiscal years, as shown in Table 2, the District did not significantly reduce its reserve funds during that time. Instead, during that period the District transferred \$1,836,974 from the operating budget to the capital projects fund (\$470,941 in 2008; \$916,507 in 2009; and \$449,526 in 2010) to pay for capital expenditures.

| Table 2: Fund Balance and Reserve Activity | | | | | | |
|--|--------------------|--------------------|--------------------|--------------------|-----------------------|-----------------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | Change 2007-2011 |
| Restricted Funds | | | | | | |
| Reserve for Encumbrances | \$0 | \$31,694 | \$298,167 | \$50,700 | \$47,500 ^a | \$47,500 |
| Reserve for Inventories and Prepaid | \$0 | \$0 | \$141,149 | \$183,070 | \$167,457 | \$167,457 |
| Reserve for Capital | \$2,594,300 | \$2,724,531 | \$2,738,401 | \$2,748,428 | \$2,509,259 | (\$85,041) |
| Total Restricted Funds | \$2,594,300 | \$2,756,225 | \$3,177,717 | \$2,982,198 | \$2,724,216 | \$129,916 |
| Unrestricted Funds | | | | | | |
| Appropriated Unexpended Surplus ^b | \$0 | \$275,000 | \$275,000 | \$312,700 | \$312,700 | \$312,700 |
| Unexpended Surplus Funds | \$2,000,136 | \$2,632,286 | \$1,716,640 | \$2,036,683 | \$1,542,090 | (\$458,046) |
| Total Unrestricted Funds | \$2,000,136 | \$2,907,286 | \$1,991,640 | \$2,349,383 | \$1,854,790 | (\$145,346) |
| Total Fund Balance | \$4,594,436 | \$5,663,511 | \$5,169,357 | \$5,331,581 | \$4,579,006 | (\$15,430) |
| ^a As of June 30, 2011, reserve for encumbrances is no longer reported as a separate category on financial statements. We have included it here for comparison purposes. ^b Prior to 2011, referred to as unreserved appropriated | | | | | | |

Further, the District requested, and in March 2010 the Town issued, \$14.3 million in serial bonds for capital improvements. In 2010, rather than using \$2.7 million in available reserves established for that purpose, the capital project fund expended \$1,437,988 financed from general fund budget appropriations of \$449,526 and bond proceeds of \$988,462. Had the District used its capital reserve money to help pay for the capital projects, the issuance of debt in 2010 would have been largely unnecessary.

At the end of 2010, after appropriating fund balance for the ensuing year's budget, the District still retained approximately \$2 million in unexpended surplus funds, equivalent to 34 percent of the entire budget for 2010. The Board continued to fund reserves in an effort to reduce surplus fund balance. In March 2011 the Board assigned \$742,048 of fund balance for the cleanup of water well contaminants,

and also authorized a transfer of \$1,900,983 of fund balance into various capital reserves. The District used some of its capital reserves in 2011 for a net decrease of \$239,169 at December 31, 2011. The Board's adopted budget for 2012 includes \$312,700 of appropriated unexpended surplus, which helped reduce the 2012 real property tax levy.

The lack of policy guidance regarding appropriate levels and uses of fund balance increases the risk that fund balance may be higher than needed and not used in the best interest of District taxpayers. Excess fund balance that is transferred to capital reserves but not used for the specified purpose could have been appropriated instead, thereby mitigating future increases in tax levies. It is essential that the Board develop realistic estimates of revenues and expenditures, which in turn will help maintain reasonable fund balances.

Claims Audit

Town Law requires the Board to audit all claims against the District before approving them for payment. A proper audit verifies that each claim has sufficient support such as invoices or receipts, is mathematically correct, and does not include charges previously paid. The Board is also responsible for ensuring that claims are for proper District purposes and in compliance with policies and employment agreements. Board members can provide evidence of their audit and approval by signing and dating each claim individually, or by adopting a resolution indicating that the claims have been audited and the Treasurer directed to pay the claims listed in the warrant (list of approved claims).

The District's written procedures for claims processing did not include the audit and approval of claims by the Board. Each Board member reviews claim vouchers and signs them after reviewing them, and all three Board members sign checks to the vendors from the operations bank account. However, the Board did not date the claim vouchers or adopt resolutions and record them in the public minutes to show that the warrants were approved and the audited claims ordered to be paid. We judgmentally selected and reviewed 32 payments totaling \$51,979.⁴ Because the Board members' signatures on the claims were not dated, we could not determine whether these claims were audited before payment, and there was no record in the minutes that the Board approved the related claim warrants. Our review identified the following deficiencies in payments of credit card charges and tuition reimbursement.

Credit Card Payments – The District has a formal policy that permits credit card use and requires credit card receipts to be submitted for each expenditure, describing the items purchased, the date of purchase, and

⁴ See Appendix D for sample selection.

the business purpose. During our audit period, the District issued 87 checks, totaling \$60,944, to four credit card vendors. We reviewed 20 credit card payments totaling \$40,210⁵ to determine whether claims audit procedures were followed and whether the 120 related charges were made in accordance with policy.

District officials did not include a description of the business purpose, as required by policy, on the claim vouchers for the \$40,210 in charges. Further, of the 120 charges comprising the 20 payments, 34 charges totaling \$5,486 were not supported by an itemized receipt or other detailed documentation. For example:

- An email receipt with a confirmation of the order and the amount to be paid was the only support for a charge of \$1,650. There was no detail to describe the items purchased.
- Four charges totaling \$1,414, from a vendor the District had used to purchase work shirts, were not supported by itemized receipts or vendor invoices.
- Eight other charges totaling \$1,289, from a vendor who normally sells shoes to the District, were not supported by itemized receipts or vendor invoices.

Tuition Reimbursement – The District’s employee handbook includes a policy and procedures for the reimbursement of expenses incurred by employees who enroll in education courses related to their District employment. The Superintendent determines whether the courses are in the District’s best interest, and the Board authorizes and documents this determination (for example, as a notation in the Board meeting minutes). For full reimbursement, the employee must provide the Board with an itemized tuition bill and a transcript showing that the course was taken and an A grade earned. For courses completed with a B grade, the employee is entitled to only 90 percent reimbursement. If the Board deems the course to be in the District’s best interest, it may prepay the full tuition cost (rather than reimbursing the employee after the employee pays the tuition) and apply any appropriate conditions.

The District made two payments totaling \$1,995⁶ as prepaid tuition for an immediate family member of the Superintendent who attended four courses over two semesters. Although the courses taken were all in civil engineering, there was no documentation of the requisite Board determination that the courses were in the District’s best interest. Additionally, transcripts that the Superintendent provided

⁵ Included in the sample of 32 payments totaling \$51,979

⁶ Included in the sample of 32 payments totaling \$51,979

at our request were dated the same day of our inquiry, indicating they were not available when the prepayments were made; further, only one of the four courses was completed with an A. The other courses were completed with a grade B or B+, which qualified the student for only 90 percent reimbursement of the tuition for those courses. The tuition bill also was not itemized and showed only a lump-sum amount for each semester. By not following policy and documentation requirements, the District prepaid the full cost of tuition for an employee who did not meet the District's guidelines. Because three of the four courses were completed with a grade of B or B+, the District should have paid only \$1,852 in tuition.⁷ Therefore, the Board overpaid \$143 in tuition for this employee.

Without a proper claims audit of all claims against the District prior to payment, District officials do not have assurance that the claims are proper and in accordance with Board policy. Further, to avoid the appearance of favoritism, it is especially important that District officials follow policy when authorizing and paying the tuition costs of employees who are also members of their immediate family.

Code of Ethics

General Municipal Law (GML) prohibits municipal officers and employees, including the officers and employees of a town improvement district, from having certain interests in contracts and from engaging in certain conduct when their public responsibilities conflict with their personal business interests. Consistent with these standards, GML authorizes a town improvement district to adopt a code of ethics setting forth for its officers and employees additional standards of conduct.

The Board authorizes all appointments and sets employees' salaries and employment benefits. Employees' salaries are documented in a salary schedule approved annually and signed by all three Board members. The Superintendent has the authority to evaluate employees' performance.

The District employed the immediate family of Board members and the Superintendent without establishing formal guidelines or procedures to help guard against favoritism or potential impropriety. During the audit period the District employed three part-time and two full-time employees who are immediate family members of two Commissioners and the Superintendent. The District's code of ethics, dated October 1998, and employee handbook, adopted in May

⁷ The full tuition for the three courses completed with a B or B+ totaled \$754 in one semester and \$675 in the other semester. 90 percent of these amounts equals \$679 and \$608, respectively. The District paid the full tuition, totaling \$1,429, instead of the 90 percent as required, totaling \$1,287, for these courses. The District paid the correct amount of full tuition for the course completed with an A.

2011, do not address or establish procedures in relation to hiring, supervising and evaluating the performance of family members.

In two instances, we found no indication that Board members recused themselves when members of their immediate families were appointed as District employees. We found no indication that the Superintendent evaluated the work performance of his family member, but it is possible that he could be required to do so in the future.

The Board is also required to maintain a complete and accurate record of its proceedings, including certified copies of the minutes of each of its meetings. We found no reference in the Board's meeting minutes to the appointment of family members of two Board members. Moreover, the salary schedule for 2011 was not dated or recorded in the Board's minutes.

Participation by District officials in employment decisions relating to their own family members could give rise to the appearance of favoritism or impropriety. The potential problem could be compounded when Board decisions in relation to such matters are omitted from the official record of its proceedings.

Superintendent's Vehicle and Accrued Leave

District officials are responsible for ensuring that the benefits provided to employees are properly authorized, in accordance with policies and employment agreements, and equitably administered. In the 2009 employment agreement with the Superintendent, the Board agreed to provide him with a vehicle to use for District purposes.⁸ The agreement also provides for five weeks (25 days) of annual leave. The District's employee handbook requires all employees to use time cards to clock in and out and document their daily work hours.

District Vehicle – The Board established the United States Internal Revenue Service's mileage reimbursement rate of 50 cents per mile for District employees using their personal vehicle on District business. While the Superintendent was assigned a District vehicle, neither his employment agreement nor the District's employee handbook provided for the Superintendent to use a District-provided vehicle for personal purposes.

In April 2009, the District purchased a new sport utility vehicle (SUV) for the Superintendent for \$30,718. Two years later, the District purchased a new 2011 SUV for \$37,695. The District paid for the

⁸ The contract stipulated: "The District will provide the Superintendent with a vehicle for all District, LIWC [Long Island Water Conference], NYSAWWA [New York Section America Water Works Association], and AWWA [American Water Works Association] National related business."

cost to operate the vehicle including insurance, gasoline, repair, and tolls.⁹ The Superintendent used the vehicle for both District business and personal use, but did not maintain a daily travel log showing the day, date, odometer reading, destination, and purpose of trips. Without such a detailed log, the Board cannot know whether the Superintendent used the vehicle appropriately.

Additionally, such a record must be maintained because the personal-use portion is a taxable fringe benefit reportable as additional compensation. For the 2009 year, the District reported \$662 of taxable fringe benefit on the Superintendent's W-2 form, but reported no taxable fringe benefit on his W-2 for 2010; however, a summary report showed a reportable fringe benefit of \$1,153 and indicated that the Superintendent drove 17,400 miles in 2010, of which 2,085 miles were for personal purposes. District officials said that these mileages were estimated based on the vehicle's odometer readings.

Our cost-benefit analysis (Appendix A) showed that, based on the amount of business mileage that the District reported as traveled by the Superintendent, the District could have saved \$8,206 annually, or about \$41,000 over five years, by reimbursing the Superintendent for the business use of his personal vehicle rather than providing a District-owned vehicle.

Attendance and Leave Records – An effective payroll process ensures that employees receive only the compensation and benefits to which they are entitled, and includes policies and procedures to guide employees in preparing and disbursing payroll. Additionally, a timekeeping system ensures that employees are accurately paid for time actually worked. Other controls include detailed time and leave records that support timekeeping systems, and reconciliations of the records to the journals and leave authorizations.

The Superintendent does not maintain a daily work log or use the District's time clock system, as required for all employees. We reviewed the Superintendent's leave request forms for our audit period and found that they were recorded accurately in the District's annual leave summary schedule. However, although the Superintendent's employment agreement provides for 25 days of annual leave, his leave summary schedule showed 27 annual leave days accrued for 2010 and 30 annual leave days for 2011.

⁹ The District had one insurance policy for all District vehicles that cost \$440 per month per auto from September 1, 2010 to September 1, 2011, for no-fault liability coverage. District vehicles were repaired at the District's facility. The District did not keep gasoline records; the Superintendent said he filled his District vehicle with gas from the Town of Oyster Bay. Our review of claims included \$352 in credit card gas purchases that the District paid, but the vouchers did not specify the vehicle for which the gas was purchased.

The Superintendent and Clerk said that the number of days credited was based on both the Superintendent's employment agreement and the employee handbook. The handbook provides one day of accrued annual leave per month, with an additional three annual leave days given to the employee after two years of full-time employment on the employee's anniversary date. In addition, the employee handbook provides that if any full-time employee does not use sick leave time during the two six-month periods of the year, they will receive an additional annual leave day for each six-month period. However, the employment agreement did not authorize the Superintendent to receive any additional annual leave as provided for in the employee handbook. Therefore, the Superintendent was credited with seven more annual leave days than authorized in his contract, comprising three additional annual leave days after his two-year anniversary date and two additional days for each of the two years that he did not use any sick time. Further, the contract wording on sick leave was unclear, referencing a section in the employee handbook that was not related to sick leave. When leave benefits are not clearly defined, the District is at risk of providing employees with benefits to which they may not be entitled.

Recommendations

1. The Board should receive and review budget-to-actual reports periodically and properly authorize budget amendments before appropriations are over-expended.
2. The Board should adopt a formal policy on appropriate levels and uses of fund balance.
3. The Board should adopt a formal policy on the establishment, funding, and use of capital reserves and ensure that the amounts are realistic and used as intended.
4. The Board should ensure that all claims have sufficient itemized documentation to permit a proper claims audit and include an explanation of the related business purpose, before the Board directs the Treasurer to pay the claims. The Board should also note in the meeting minutes that it audited the claims listed on the warrant and directed the Treasurer to pay them.
5. The Board should ensure that District policy and procedures are followed before reimbursements for education costs are authorized and paid.
6. The Board should revise the District's code of ethics to address and establish procedures in relation to hiring, supervising, and evaluating the performance of District officials' family members.

7. The Board should ensure that the official record of its proceedings is complete and accurate.
8. The Board should adopt a formal policy that requires a cost-benefit analysis to justify assigning District vehicles to employees for business use. This analysis should compare the District's costs of owning vehicles to the cost of reimbursing employees for the use of their personal vehicles on District business.
9. The Board should ensure that the Superintendent maintains time and attendance records, that provisions of his employment agreement are followed, and that any contractual references to the employee manual that may be ambiguous are reviewed and clarified.

Treasurer's Duties

As the District's chief fiscal officer and custodian of District funds, only the Treasurer is authorized to sign District checks, and only after a proper claims audit by the Board. The Board is responsible for ensuring that the Treasurer fulfills the responsibilities of that position and that the duties in the Treasurer's office are adequately segregated so that no one person controls all or most aspects of a financial transaction. If adequate segregation of duties is not feasible, the Board can institute compensating controls, such as review of financial activities by someone who is independent of the Treasurer's duties.

The Board allowed the Clerk to the Board (Clerk)¹⁰ to perform many of the Treasurer's duties, including the processing of cash receipts and electronic funds transfers, without adequate oversight or controls. In addition, the Board allowed a third-party administrator to write checks from the District's dental plan bank account instead of the Treasurer, and without the Board's prior audit and approval of the claims.

Cash Receipts – The Clerk is responsible for receiving cash receipts,¹¹ preparing bank deposit slips, making journal entries, and recording the cash receipts as revenue in the accounting records. There is no supervisory oversight of these incompatible duties.

We reviewed four months of cash receipts, other than water sales, and related revenue journal entries totaling \$2,146,525.¹² We compared the source documents to the journal entries and the bank deposits, and traced those deposits to the bank statements. Although we found no discrepancies, without adequate management oversight or compensating controls, there is a higher risk or greater opportunity for errors and irregularities to occur without detection because duties are not adequately segregated.

Electronic Funds Transfer¹³ – Electronic funds transfer provides a means of direct access to District moneys, allowing District officials to initiate, authorize, and transmit funds electronically. Therefore,

¹⁰ The State's Civil Service title for this employee is Stenographer.

¹¹ Such as property tax payments from the Town, hydrant rental fees, various permit fees, and miscellaneous sales and other charges such as violation fines. The District's water sales receipts are handled by other clerks.

¹² See Appendix D for sample selection.

¹³ Electronic transfers include intra-bank transfers (between accounts within the same bank) and inter-bank, or wire, transfers (between banks). The District's electronic funds transfers were limited to transfers from the general fund account to the dental administrator's account at the same bank.

effective policies and procedures to protect these funds require documented supervisory approval before transfers are initiated, executed, and recorded, and documentation of who posted the journal entries. The District must also enter into an agreement with its bank that processes online transfers, requiring written or telephone confirmation with a District official other than the person requesting the transfer before the transfer is made.

The Board has not developed written policies or procedures for electronic banking transactions, and did not require the Treasurer to enter into a written agreement with the District's bank. Further, the Clerk had full access to the online banking system to transfer funds from the general fund bank account to the District's dental plan bank account, but the Treasurer did not oversee or authorize these transfers.

Dental Plan Administration – The District contracted with a third-party administrator to manage its employees' self-insured dental plan. The plan administrator processes dental claims and provides the District with a check register showing the names of the payees, the check numbers, and the amount payable to each claimant. However, the Treasurer does not review or sign the checks as his position requires; instead, the Clerk to the Board electronically transfers the amount requested by the administrator from the general fund account to the dental plan bank account, without any Board oversight or supervisory approval, and the dental plan administrator signs and issues the checks. Town Law does not provide authority for a third party such as the dental plan administrator, who is not an officer or employee of the District, to handle District cash. The only compensating control is the reconciliation of the dental plan's bank statements, which external accountants hired by the District perform after the payments have already been made.

We examined 14 electronic funds transfers totaling \$35,962¹⁴ and related journal entries over a four-month period to determine whether the payments were based on authorized source documents and whether the prior supervisory and Board review and approval were documented. All wire transfers were based on source documents from the dental administrator and were recorded in a timely manner, and each payee listed in the check register matched the corresponding canceled check. However, there was no evidence of prior supervisory review and approval for the electronic funds transfers or evidence that the Board had audited and authorized the payment of the dental claims.

Without a segregation of duties in the Treasurer's office; control and custody of District money by the Treasurer; internal controls

¹⁴ See Appendix D for sample selection.

over electronic funds transfers, including policies and procedures; a written agreement with the District's bank, detailing authorization and confirmation for online funds transfers; and control and custody of District money by the Treasurer, the District is at an increased risk of errors or irregularities occurring and not being detected and corrected in a timely manner.

Recommendations

10. The Board should ensure that the Treasurer fulfills his responsibilities as custodian of District money and that the duties within the Treasurer's office are adequately monitored and segregated.
11. All electronic transfers should be made by the Treasurer or under the Treasurer's supervision. The Board should establish written procedures for electronic transfers and enter into written agreements with its banks for authenticating the transfers.
12. The Board should not authorize a third-party consultant to write checks from a District account.

Computer Access

The District relies on information technology (IT) to conduct its operations, communicate information in a timely manner, and store and process financial information. Accordingly, the Board must establish internal controls to protect the security of the District's critical and confidential data. A key internal control is the assignment of user access rights that segregate duties within the computerized environment so that users can access only those areas of the system they need to perform their job duties. Further, the financial system administrator should not be involved in the District's financial operations.¹⁵ District officials must also ensure that user access rights are promptly adjusted or deactivated when employees' responsibilities change. Finally, the routine management review of audit logs – automated trails that record each user account that accesses the system, time and date of the access, transactions that occurred, and the time and date of log-off – can help prevent, detect, and trace unauthorized activity.

The Board has not ensured that user access rights are restricted to those functions required by employees' job duties. The District's process of adding users and changing access rights in the financial software is informal and not documented by request forms initiated and authorized by management. The District's IT consultants said that the Superintendent verbally notifies them of when to add users, and at what level of access to the financial software. However, there is no record of authorization and no documentation to justify the access or to confirm that authorizations agree with the level granted. Further, the audit log shows only what user account logged into a module, but not what was accessed or changed, and no one at the District reviews these logs.

The District has 19 active user accounts, 10 of which have full access (read/update/delete) to all modules of the financial software. Three of the accounts are assigned to the IT consultants, who maintain the system and do not perform any operational work such as data entry. The other seven accounts are assigned to the Clerk to the Board, who has full access to the general ledger, billing, cash, accounts payable, and purchasing, and the Superintendent, an account clerk, a keyboard operator, an operations manager, a water services trainee, and a part-time clerk. Therefore, users could potentially record, modify, or delete transactions without proper authority. As a result, the District is at an increased risk of unauthorized access to sensitive information,

¹⁵ An individual who has financial system administrative rights can add new users, create and change user access rights, configure certain system settings, and override management controls.

manipulation of District records, and the loss or destruction of critical or confidential data.

Recommendations

13. The District should restrict user access to the financial software to only those functions that employees need to perform their job functions.
14. Audit logs of user activity should be more detailed and monitored periodically by management.

APPENDIX A

COST-BENEFIT ANALYSIS OF DISTRICT VEHICLE

| Table 3: Cost-Benefit Analysis Reimbursement of Mileage vs. Cost of Vehicle Ownership | | |
|--|------------------------------|------------------------------|
| Miles Driven by Superintendent, as Calculated by District | Annual Personal Miles | Annual Business Miles |
| Miles Driven in 2010 | 2,085 | 15,315 |
| IRS Mileage Reimbursement Rate | | \$0.50 |
| Amount Reimbursable for Business Miles | | \$7,658 |
| Cost of District's Ownership | Purchase Price | Annual Cost |
| Cost of Purchase - 2011 SUV (amortized over five years) | \$37,695 | \$7,539 |
| Insurance (based on \$440/month average vehicle monthly cost) | | \$5,280 |
| Gasoline (based on a combined 17 MPG rate, at \$3.38/gal) ^a | | \$3,045 |
| Total Annual Cost^b | | \$15,864 |
| Potential Annual Savings, if Reimbursed for Business Miles | | \$8,206 |
| Potential Savings Over Five Years | | \$41,030 |
| ^a http://www.fueleconomy.gov/feg/bymodel/2011_Chevrolet_Tahoe.shtml | | |
| ^b Does not include routine repair and maintenance costs | | |

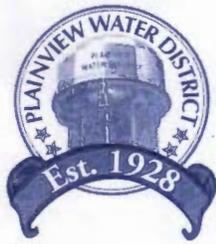
APPENDIX B

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.

The response letter contains references to accompanying documents: the audited financial statements for fiscal year 2011 and the District policy adopted in November 2011. Because the response letter sufficiently explains the relevance of these documents, they are not included here.

The District's response also refers to page numbers in the draft report. These page numbers may have subsequently changed as a result of the final formatting process.



PLAINVIEW WATER DISTRICT

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Board of Commissioners

Andrew N. Bader, Chairman
Joel R. Kessler, Treasurer
Edward I. Shulroff, Secretary

Superintendent

Richard W. Tobin

October 25, 2012

Mr. Ira McCracken, Chief Examiner
Division of Local Government and School Accountability
Office of the State Comptroller
110 State Street
Albany, New York 12236

Re: Office of the State Comptroller Audit
Plainview Water District

Dear Mr. McCracken:

Enclosed please find the District's response to your recent audit entitled "Board Oversight and Other Financial Related Operations, Report of Examination 2012M-35". The District's staff, attorney and accountants have reviewed the report for accuracy and have noted our comments accordingly.

The District would like to take this opportunity to thank the Comptroller's Office for providing recommendations which aid in ensuring that the District operates as efficiently as possible.

If there are matters in our response that need further clarification, please contact the District at 516-931-6469.

Very Truly Yours,

Andrew N. Bader
Chairman

Providing safe and reliable drinking water to the community since 1928

In regards to the recent Report of Examination drafted by the New York State Office of the State Comptroller, the Plainview Water District (District) has developed responses to audit findings. These responses are preceded by their respective findings (Page numbers referenced). We ask that all responses are reviewed with proper consideration and inaccuracies addressed. If any substance of this response requires additional information, we ask that the District be contacted.

FINDING:

Budget Monitoring – The Board did not monitor the budget on an ongoing basis, but instead allowed management to incur expenditures exceeding budget appropriations. (Page 9)

RESPONSE:

The District assesses current needs and considers a number of factors when preparing a subsequent year’s budget. Actual expenditures, projections, current issues, and resident need amongst other things are examined when preparing and amending District Budgets. When developing the 2010 Budget, the District planned for certain appropriations. When opportunities arose to make improvements to the District as a whole, the Board appropriately amended the budget for these non-recurring expenditures. An overview of the 2010 Budget is presented below to reflect these amendments and illicit how the District did not exceed budgetary appropriations.

2010

The following is a summary of the 2010 Budget:

See
Note 1
Page 35

| | | |
|----------------------|--|----------------------|
| Original Budget | | 6,058,654 |
| Carried Encumbrances | | 298,167 |
| Budget Revision ① | | 300,000 |
| Budget Revision ② | | <u>222,000</u> |
| Final Budget | | <u>6,878,821</u> |

- ① Budget Revision 1 - Approved September 7, 2010; the Board authorized a budgetary increase of \$300,000 from unassigned fund balance to fund the purchase of meters. This meter replacement program improved reading accuracy, billing, and enabled quicker reads by servicemen.
- ② Budget Revision 2 - Approved April 28, 2011; only budget revision subsequent to year-end. Revision made to fund the 2010 transfer to the capital fund. The transfer was largely to fund two projects: Improvements to the District’s Administration Building, and the SCADA Communications System Upgrade.

Pursuant to the Accounting and Reporting Manual Published by the Comptroller, the District budget is an estimate of future revenues and expenses. Consequently, situations will arise when it will be necessary to amend the budget. The two budget revisions listed above constituted non-recurring expenses and were funded by appropriating fund balance. Consequently, we feel that the Comptroller's conclusion is misleading since the report does not reflect carry-over encumbrances and revisions as authorized by the Board. In addition, our accountant performs a monthly review of the District's books and accounts. Should there be any discrepancies (and there were none), the accountants would report to the Board. Thus, contrary to your conclusion, the Board does in fact monitor the District's budget. The Board, however, acknowledges the Comptroller's recommendation that the District formally update its budget more frequently and will likely do so on a quarterly basis going forward memorializing same in its minutes.

See
Note 2
Page 35

INCORRECT: The information as presented in Footnote 2 (Page 9) is incorrect. The report references transfers of \$1,050,000 made subsequent to year-end to cover specific line items over-expended. The \$449,526 transfer to capital is comprised of \$118,963 in encumbrances carried from the prior year, the previously mentioned budget revision of \$222,000, and a budget transfer of \$108,563. The amount in the footnote should be \$108,563.

See
Note 3
Page 35

The report states that the Board underestimated revenues by \$931,554 further arguing the case that Board oversight was not in place. Although it does reference to a footnote indicating \$742,048 was received from litigation settlement proceeds and \$416,665 was from water sales, we believe in the context provided this information should be presented in the body of the paragraph. **Please note that the revenue final Budget variance to actual revenues was \$1,206,554 per the audited financial statements, not \$931,554 per the report.** The District received an additional \$416,665 from water sales in 2010. These amounts were due to a dry hot summer when consumer demand was at its peak and were completely unforeseen. For budgeting purposes, the District uses estimates based on prior year's activity, and if new rates were adopted, averages previous years' usage and takes into account these new rates. The \$742,048 constitutes a legal settlement from various gasoline companies arising out of the District's claims for MTBE ground-water contamination. These proceeds were again completely unforeseen and were not perceived as collectible when preparing the 2010 budget. Upon receipt, the District took action. It designated a portion of these proceeds for remediation of existing contamination in 2010. It also established a capital reserve fund for future remediation expenses.

See
Note 4
Page 35

2011

In 2011, the district sustained an operating deficit of \$752,575 per the audited financial statements not \$686,658 as shown in the report (Page 9). Of this amount \$312,700 was planned due to the District appropriating fund balance in the 2011 budget to reduce the burden to the taxpayers. This portion was not reactive since it was planned when the District adopted its 2011 Budget in the fall of 2010. In addition, the Board authorized a Budget Revision of \$410,000 on December 6, 2011 to fund the purchase of meters. As previously stated, the Board decided it was in the best interest of the District to replace these meters and was not a known cost at the time of the 2011 Budget adoption. These meter replacements are not a yearly project and were the cause of the additional deficit. If the costs were known at the time the budget was adopted, the District would have funded these one-time costs with fund balance to reduce fund balance and to again reduce the burden on taxpayers. We feel that this is a prudent strategy since the District is not using a significant amount of fund balance to fund normal operating costs, instead using fund balance for

See
Note 5
Page 35

one-time expenditures. This process has been recommended in previous audits performed by the State Comptroller's Office.

FINDING:

Fund Balance – The board did not develop policy guidance for the appropriate accumulation and use of fund balance. The District incurred significant fluctuations in operating results, and accumulated excessive fund balance, from 2007 through 2011 (Page 10).

RESPONSE:

See
Note 5
Page 35

The amounts in Table 1 "Fund Balance and Operating Results", along with Table 2 "Fund Balance and Reserve Activity" (Pages 10 & 11) do not agree with the 2011 audited financial statements (enclosed). **Revenues should be \$6,160,107, expenditures \$6,912,682, the operating surplus/(deficit) \$(752,575), and the total fund balance \$4,579,006.** The District's total fund balance from the years 2007-2011 remained significantly unchanged in total. The ending total fund balance as of December 31, 2011, was only \$15,430 lower than the 2007 totals as reflected in a revised table as per Comptroller error in 2011 figures. Fluctuations existed during the years but reasons exist for these fluctuations. Namely, for the audit periods in question (2010 & 2011), fund balance increased by \$162,224 and decreased by \$752,575 respectively. Explanations for these increases and decreases have been provided for in the above budget paragraphs.

Per District policy adopted on November 22, 2011(enclosed), the unassigned fund balance is to be maintained at 25% of the ensuing year's budget. Per GFOA standards general-purpose governments, regardless of size, should maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. Two months of expenditures equate to 16.7% of an entire year's budget. The Water District, due to the unpredictability of a large source of their revenues, metered water sales and unknown costs related to water contamination, seeks to maintain their unassigned fund balance at this level to safeguard against significant events. Neither during the 2010 or the 2011 audit years in question, did unassigned fund balance exceed 25%.

See
Note 6
Page 36

While the Comptroller's report states that the District had excessive fund balance for the periods in question, the District disagrees and maintains that the current levels were necessary due to the fundamental nature of Commissioner Elected Water Improvement Districts in general and especially to those Districts confronted with substantial remediation costs for unpredictable environmental contamination to its underground aquifer.

2010 – In 2010, the District ended the year with \$5,331,581 in total fund balance. Of this amount, \$50,700 was reserved for encumbrances, \$2,748,428 was reserved for capital, \$183,070 was reserved for inventory, \$742,048 was designated for contaminants, \$312,700 was appropriated for the ensuing year's budget, and \$1,294,635 was unassigned.

The amount of \$2,748,428 was reserved for Capital for various reasons. Specifically, this reserve was established to fund water tank rehabilitation projects, meter replacement projects, infrastructure improvements, etc. None of the projects in relation to the 2010 bond authorization were encompassed in this reserve. To indicate that the use of these reserves by the District would have obviated the issuance of \$14,300,000 bond is misguided. The limited capital reserves could never cover the size of these capital improvements. As of December 31, 2011, the expenditures in relation to these bonded projects were already \$7.27 million. In addition, part of this existing capital reserve was appropriated in the 2011 year for other capital projects.

See
Note 7
Page 36

The \$742,048 amount designated for contaminant remediation was considered as “Unexpended Surplus Funds” by the Comptroller in the 2010 year. This amount relates to proceeds received from various defendants in conjunction with ground-water contamination. In 2010 these proceeds were designated to be used towards future cleanup costs in conjunction with this MBTE additive used in gasoline. In 2011, further restriction was put on these funds when the designation was set up as a capital reserve to use against future capital cleanup costs. The intention of these funds was to cover the potential costs of air stripping towers and alternate means to aide in contaminate remediation of the ground-water. Accordingly, GASB 54, would have this designation in the same class as the reserve for encumbrances, this amount would be assigned for a specific purpose in 2010, not “Unexpended Surplus Funds” which, in and of itself, is not a formal classification in current NYS financial statements. For comparability, the District requests Table 2 “Fund Balance and Reserve Activity” to reflect the implementation of GASB 54, to further show the constraints on these resources (Comparability to 2011 financial statements which were audited in this report).

See
Note 8
Page 36

In fact, the District’s focus on ground-water contamination is of immediate concern. Recently, the front cover of Newsday reported a major contamination plume being reported in Bethpage. As Plainview is adjacent to the Bethpage Water District, it would be irresponsible not to take these reports into consideration. This designation/reserve was set up to provide immediate funding in the case of ground-water contamination at the District’s well head. Further, the EPA continually increases water standards demanding ever lower water contaminant percentage values for potable water. The District has planned accordingly to meet these more stringent requirements.

2011 – In 2011, the District reduced fund balance by \$752,575 by appropriating unassigned fund balance for the 2012 budget, and using the capital reserve for the purchase of meters. The Board maintained unassigned fund balance as per District policy at \$1,542,090 (23.2% of the 2012 Budget)

FINDING:

Claims Audit – The District’s written procedures for claims processing did not include the audit and approval of claims by the Board. The Board did not date the claim vouchers or adopt a resolution and record it in the public minutes to show that the warrant was approved and audited claims ordered to be paid (Page 11).

RESPONSE:

The District does take steps to ensure all required documentation and criteria is met where applicable prior to approving District claims. The District evidences approval of claims by documenting each Commissioner's signature upon review on individual claim vouchers. Additionally, the District Treasurer signs and dates the District's "Abstract of Audited Claims". This abstract certifies the review of District claims, check numbers, as well as disbursement amounts. These abstracts encompass multiple claims and are signed and dated by the Treasurer in conjunction with District checks. Only after the Treasurer signs off and dates his approval, are checks mailed to individual vendors. Finally, approvals of check warrants are now part of District minutes.

See
Note 9
Page 36

FINDING:

Credit Card Payments - District officials did not include a description of the business purpose, as required by policy, on the claim vouchers for the \$40,210 in charges. Further, of the 120 charges comprising the 20 payments, 34 charges totaling \$5,486 were not supported by an itemized receipt or other detailed documentation (Page 12).

RESPONSE:

The District is currently reviewing controls over credit card payments to ensure that all proper documentation, itemized receipts, and business purpose are annexed to each claim in the future. Regarding past claims, back-up itemized receipts are being retrieved directly from all vendors where needed. Finally, our independent review of these claims confirms the review by the comptroller that there is no indication from the audit that any of these claims were not for expenditures arising out of a legitimate business purpose.

FINDING:

Tuition Reimbursement - The District made two payments totaling \$1,995 as prepaid tuition for an immediate family member of the Superintendent. Although the courses were in civil engineering, there was no documentation of the requisite Board determination that the courses were in the District's best interest. Additionally, it was found that the Board overpaid \$143 in tuition for this employee (Page 13).

RESPONSE:

Tuition reimbursement is made available for all eligible employees regardless of whether or not the employee has any family relationship to the Superintendent and/or Board member. It is a benefit outlined in the District Policy Manual. Section 4.20 of the Employee Policy Manual (enclosed) states: "If the course is deemed to be in the best interest of PWD, the Board may elect to prepay the full cost of tuition and apply

any conditions deemed appropriate.” The condition here was the passing of the course. The Board confirmed that the employee did, in fact, pass the approved course. The reimbursement in question was brought before the Board and was considered by the Board to be in the “best interest of the District”. In response to the \$143 of alleged overpayment, the Comptroller fails to fully appreciate the scope of the reimbursement policy. In fact, there was no overpayment. The \$143 is the difference between the two options regarding educational reimbursement afforded to the employee. The Board approved the first option which merely requires that the employee receive a passing grade for the course. Under the second option, the employee is provided a percentage reimbursement based upon the actual grade received.

In light of this clarification, we respectfully request that the report omit any reference that the tuition reimbursement was made to an immediate family member of the Superintendent. The fact that the employee is a family member is irrelevant with respect to the policy and reimbursement would have been afforded to any other employee.

FINDING:

Code of Ethics – The District employed the immediate family of Board members and the Superintendent without establishing formal guidelines or procedures to help guard against favoritism or potential impropriety. In two instances we found no indication that board members recused themselves when members of their immediate family were appointed as District employees (Page 13).

RESPONSE:

The District has always treated each of its employees fairly regardless of familiar status. Per the Comptroller’s recommendation, The Board has consulted its labor attorney to discuss the development of an appropriate ethics policy for the District which will memorialize its long standing practice of impartiality.

FINDING:

Superintendent’s Vehicle – While the Superintendent was assigned a District vehicle, neither his employment agreement nor the District’s employee handbook provided for the Superintendent to use a District-provided vehicle for personal purposes. Our cost – benefit analysis (Appendix A) showed that, based on the amount of business mileage that the District reported as traveled by the Superintendent, the District could have saved \$8,206 annually, or about \$41,000 over five years, by reimbursing the Superintendent for the business use of his personal vehicle rather than providing a District-owned vehicle (Page14).

RESPONSE:

The Comptroller's finding on this issue illustrates a fundamental failure to appreciate the vital function water districts serve in protecting a critical public service and the Superintendent's instrumental role in protecting the public during an emergency. As a first responder, the Superintendent is required to report to the District in all weather conditions regardless of the hour. Consequently, the issuance of a vehicle to essential personnel in a public utility cannot be subjected to a simple cost-benefit analysis. Instead, it is an emergency preparedness decision premised primarily upon public safety. The issuance of a vehicle is a necessity for the District and is no different than fire department personnel, etc. Given the weather conditions frequently encountered during emergencies on Long Island requires acquisition of a powerful 4 wheel drive vehicle. Requiring an individual to bare the cost of such a vehicle would place an undue burden on any employee.

See
Note 11
Page 36

With due consideration to the primary concern of emergency preparedness, the District still undertook its own cost benefit analysis addressing three factors. First, District vehicles are reviewed on an annual basis with the District's mechanic to determine which, if any, vehicles are in need of replacement. In this case, it was determined that the vehicle of the second in charge needed replacement and that the previous Superintendents vehicle would be suitable. The Comptroller's report makes no reference to the fact that his vehicle had been reassigned for this purpose leaving readers to question the underlying decision to replace the vehicle as well as the whereabouts of the replaced vehicle.

Second, there is no indication in the report of the W-2 auto-inclusion for the year ended December 31, 2011. Since the audit period was inclusive of the 2011 fiscal year, we suggest that the 2011 auto inclusion be referenced. The omission of the 2010 fringe benefit from the Superintendent's W-2 was an inadvertent omission. This mistake is evidenced by the fact that the benefit was reported in both 2009 and 2011, the preceding and subsequent years respectively.

See
Note 12
Page 37

Third, the Board considered the amount of personal use versus business use when determining whether or not to provide a vehicle for the District Superintendent. As shown in Appendix A (Page 21) of the Comptroller's report, of the 17,400 miles driven in 2010, approximately 15,315 miles (88%) were for business and 2,085 miles (12%) were for personal usage. This personal versus business usage remains significantly unchanged from year to year. Considering these facts the Board deemed it necessary to provide a vehicle which is overwhelmingly being used for business.

In conclusion, the Plainview Water District like all other responsible water utilities, will not let a de minimus cost differential to jeopardize the integrity of its distribution system nor the safety of its inhabitants.

See
Note 11
Page 36

FINDING:

Attendance and Leave Records – The Superintendent does not maintain a daily work log or use the District's time clock system, as required for all employees. Although the Superintendent's employment agreement provides for 25 days of annual leave, his leave summary schedule showed 27 annual leave days accrued for 2010 and 30 annual leave days for 2011 (Page 15).

RESPONSE:

With regards to the Superintendents accrued leave, the Board of Commissioners approved, not only the agreement between the Superintendent and the District, but also granted and approved the additional benefits offered in the District's Employee Manual. Simply stated, the agreement did not stand alone but specifically incorporated the policy manual by reference. The manual includes leave time and delineates all other employee benefits. The Clerk to the Board keeps a monthly record of the Superintendent's attendance and leave records. The leave records are reviewed and approved by the Board on a monthly basis to ensure compliance. No additional time, above that which was granted by the agreement and employee/policy manual was attained.

See
Note 13
Page 37

The District's Superintendent's position does not come within the jurisdictional purview of Section 315.4. Enclosed is our general counsel's correspondence with the NYS Retirement System on this issue.

FINDING:

Treasurer's Duties – The Board allowed the Clerk to the Board (Clerk) to perform many of the Treasurer's duties, including the processing of cash receipts and electronic funds transfers, without adequate oversight or controls. In addition, the Board allowed a third-party administrator from the District's dental plan bank account instead of the Treasurer, and without the Board's prior audit and approval of the claims (Page 17).

RESPONSE:

Cash Receipts – Due to the resignation of the District's Treasurer on February 18, 2009, and the resignation of the Account Clerk on March 26, 2010, the Clerk to the Board, who has always acted as back-up was required to step in until the hiring of the present Account Clerk on July 19, 2010. The Account Clerk and Clerk to the Board work together for the purpose of avoiding errors and irregularities. During this audit, the Clerk to the Board and Account Clerk attended all meetings with the NYS auditors in order to respond to their questions.

See
Note 14
Page 37

Both the Account Clerk and Clerk to the Board review all cash receipts and related revenue journal entries. These journal entries are kept in a binder and reviewed on a monthly basis by the District's external accountants. The District's external accountant ensures proper coding and amounts are entered when they reconcile receipts amounts deposited for a given month. Also, due to the size of the Administrative Office, these mitigating controls should be considered in the Comptroller's Audit Report.

The Board, on a monthly basis, reviews and approves the District's Monthly Treasurer's Report prepared by the District's outside accountants. This Treasurer's Report encompasses all Cash Receipts and Disbursements for a given month.

Electronic Funds Transfer - The inter-fund electronic transfers refer to transfers within Capital One Bank from the operating account to the dental account to cover claim expenses. Only monies needed to cover the claim expenses are transferred. The District's Account Clerk and Clerk to the Board transfer funds from

one account to the other and journal entries are created. Said claims and journal entries are kept in a binder which is reviewed on a monthly basis by the District's external accountants. Additionally, the transfer from the operating account to dental account is now authorized by the Treasurer before the transfer is made, and after all claims are reviewed and approved.

Dental Plan Administrator - All dental claims are reviewed by the District's dental administrator, DR Administrative Services, which is cited in the District's agreement with the dental administrator. DR Administrative Services follows the District's Schedule of Dental Benefits for reimbursement. The District now requires the District Treasurer to sign off on the claims prior to payment and the approval of Dental Claim Warrants, are part of District minutes.

FINDING:

Computer Access – The District's process of adding users and changing access rights in the financial software is informal and not documented by request forms initiated and authorized by management. The District's IT consultants said that the Superintendent verbally notifies them when to add users, and at what level of access to the financial software. However, there is no record of authorization and no documentation to justify the access or to confirm that authorizations agree with the level granted. Further, the audit log shows only what was accessed or changed, and no one at the District reviews these logs (Page 20).

RESPONSE:

The District is currently in the process of reviewing user access to all modules of its accounting/billing software and will restrict and or delete user access where applicable. In addition, the District will work with the IT Consultants to develop a more complete audit trail report, and will develop written procedures to review accordingly.

APPENDIX C

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

The table presented in the District's response shows new appropriations, which increase the overall amount of the budget, rather than also showing transfers between budget accounts made to prevent other appropriations from becoming over-expended. No expenditure can be made or obligations incurred unless sufficient appropriations are provided in the budget. The Board may authorize budget transfers or increase appropriations, as stated in Town Law, before appropriations become over-expended. However, the Board allowed the District's external accountants to make budget transfers after appropriations were already over-expended and without the Board's prior review and approval.

Note 2

The Board's assertion that it monitors the budget is not supported by our audit findings. The District's accountant provided us with a budget transfer schedule totaling \$1,051,000, which we verified; however, we also verbally confirmed that budget transfers were not reviewed and approved by the Board before they were posted in the District's books after the 2010 fiscal year ended. In addition, encumbrances are open commitments carried forward from the prior year's budget and, therefore, are not treated as budget transfers for that year, but in effect increase appropriations in the ensuing year's budget.

Note 3

We revised footnote 2 in our report to reflect \$108,563 in transfers to the capital projects fund included in the \$1,051,000 budget amendment.

Note 4

We revised our report to show a positive revenue variance of \$1,206,554 (see note 5).

Note 5

After our fieldwork ended, we requested the District's 2011 audited financial statements. The District provided us a draft copy of the 2011 audited financial statements in May 2012. The financial information in our draft report agreed with information in the 2011 draft financial statements. Differences between the draft and the final 2011 audited financial statements are a result of adjustments made subsequent to our draft report. We requested on several occasions to hold an exit conference to discuss the audit findings and reconfirm the information in our draft report. Although District officials asked for an extension to respond to the draft report, they did not accommodate our requests for an exit conference. We reviewed the final 2011 audited financial statements provided with the District's response letter and revised our report accordingly.

Note 6

We recognize that the Board has proactively implemented our audit recommendation to adopt a fund balance policy limiting the accumulation of unassigned fund balance to a reasonable amount based on District needs and a given percentage of its annual budget. However, the policy does not define how to achieve a balance between the need to accumulate capital reserve funds and finance capital projects with a combination of such reserves and proceeds of long-term bonds.

Note 7

We do not suggest that using capital reserve funds to help finance capital projects would have obviated the issuance of long-term debt. Rather, the funding of capital projects with a combination of capital reserve funds and long-term debt would have decreased the amount of the total debt necessary to fund those projects.

Note 8

Footnote 1 of our report explains the transitional language we use to bridge the differences between the terminology used to describe fund balance types reported before and after the implementation of GASB Statement 54. Our transitional language description is consistent with the District's reported fund balances.

Note 9

Because each Commissioner signed but did not date the individual claims, there is no assurance that the claims were audited prior to payment.

Note 10

The authorizing resolution did not declare that the course was deemed in the best interest of the District or that the Board moved to prepay the tuition cost without preconditions. To avoid the appearance of favoritism, it is especially important that the "best interest" declaration and "any conditions deemed appropriate" be made public and included in the minutes of the Board before a commitment to spend public money is made.

Note 11

None of the policies provided to us authorizes any District official or employee to use a District vehicle for personal use. District officials never indicated, either during our audit fieldwork or in our preliminary discussion of audit findings, that the vehicle was assigned to the Superintendent because he was deemed to be a first responder or that it has been the District policy to assign first responders permanent vehicles they can take home without any restrictions. If the Board believes that the cost of purchasing and maintaining a vehicle to be used solely by a first responder is too minimal to consider or evaluate through a cost-benefit analysis, the Board should formally document such a determination in its proceedings.

Note 12

District officials provided no evidence that a revised W-2 form was issued to correct the omission of the 2010 fringe benefit from the Superintendent's W-2 form since we discussed this deficiency with District officials in October 2011. We did not report on the filing of Superintendent's W-2 form for 2011 because our audit scope covered the period January 1, 2010 to April 30, 2011. (We expanded our scope to include the 2007 through 2011 fiscal years only for the purpose of analyzing the District's fund balance trends.)

Note 13

The employment agreement did not provide explicit authority for the Superintendent to receive any additional annual leave time granted to other employees as provided for in the District's employee handbook. In addition, although District officials assert that a monthly record of the Superintendent's attendance and leave records was maintained, we were informed during the audit that the Superintendent did not keep a daily attendance record, and none was provided to us for review.

Note 14

As custodian of District funds, the Treasurer is the only District official authorized to handle District cash and to execute transfers of funds by electronic means. Such duties may not be delegated to other District staff unless an office of a Deputy Treasurer is created to assume the Treasurer's duties in his/her absence.

APPENDIX D

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions, and requested pertinent documents, such as District policies and procedures. We reviewed Board minutes, financial records, and reports. In addition, we reviewed the District's internal controls.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and decided on the reported objective and scope by selecting for audit those areas most at risk. We determined that the areas of Board oversight and other financial related activities had the most risk. The steps that we took to accomplish our audit objective included the following:

- We interviewed management and staff involved with the financial operations of the District to gain an understanding of operations and internal controls, and reviewed corroborative evidence.
- We reviewed audit reports, budgets, and budget-to-actual reports to assess trends in the District's financial position.
- We inspected Board minutes and formal policies to assess the District's control environment, including oversight of financial operations.
- From four consecutive months in the middle of our audit period (July 2010, August 2010, September 2010, and October 2010), we randomly selected 18 miscellaneous cash receipt transactions totaling \$2,146,525. We traced the transactions from the manual ledger to the journal entries, computerized ledgers, and bank statements.
- From the above four consecutive months, we selected all of the 14 electronic fund transfers, totaling \$35,962, executed during that period. We traced check register transactions to the journal entries, ledgers, and bank statements to determine if electronic transfers were recorded appropriately, adequately supported, and reviewed, approved, and executed by or under the direct supervision of the Treasurer.
- We judgmentally selected and sampled 32 checks, totaling \$51,979, paid to parties with higher inherent risk, including credit card vendors, Commissioners, District officials' family members, and a cable company. From the cash disbursement journal for our audit period, we traced payments back to the original supporting documents.

- We examined invoices, claim vouchers, W-2 forms, backup support for W-2 forms, employment agreements, and fixed asset inventory listings when reviewing internal controls over vehicle use.
- We examined attendance and leave records to determine if payrolls were adequately and accurately recorded.
- We interviewed consultants responsible for maintaining the District’s information technology and financial accounting systems to gain an understanding of their roles in influencing District operations and internal controls, and to evaluate the reliability of certain corroborative evidence.
- We examined user access to the financial software and evaluated various controls designed to ensure data integrity, including user access lists and audit logs.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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