



Town of Hempstead Sanitary District No. 1

Selected Financial Activities

Report of Examination

Period Covered:

January 1, 2014 – December 31, 2014

2015M-206



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
EXECUTIVE SUMMARY	2
INTRODUCTION	4
Background	4
Objective	4
Scope and Methodology	4
Comments of District Officials and Corrective Action	5
SALARIES AND BENEFITS	6
Leave Time Pay	7
Holiday Bonus Pay	8
Accrued Leave Balances	9
Group Life Insurance	10
Recommendations	12
TREASURER	14
Recommendations	15
FINANCIAL REPORTING	17
Recommendations	18
APPENDIX A Response From District Officials	19
APPENDIX B OSC Comments on the District's Response	29
APPENDIX C Audit Methodology and Standards	31
APPENDIX D How to Obtain Additional Copies of the Report	33
APPENDIX E Local Regional Office Listing	34

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2016

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 Town of Hempstead Sanitary District No. 1, entitled Selected Financial 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 New York State 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 Town of Hempstead Sanitary District No. 1 (District) is located in the Town of Hempstead in Nassau County. The District provides refuse and recycling pickup to residents and some commercial properties in the District and surrounding areas. The District is governed by an elected five-member Board of Commissioners (Board). The District Superintendent is the District's chief executive officer and is responsible, along with other administrative staff, for day-to-day management under the Board's direction. The District Treasurer (Treasurer) is the chief fiscal officer, responsible for receiving, disbursing and maintaining custody of District funds; maintaining the accounting records; reconciling bank accounts; and providing the Board with financial reports. The District's total expenditures for 2014 were approximately \$19.4 million, funded primarily with real property taxes.

Scope and Objective

The objective of our audit was to evaluate selected District financial activities for the period January 1, 2014 through December 31, 2014. We extended our scope back to January 1, 2011 to review selected payroll activities and financial reporting. Our audit addressed the following related questions:

- Did the Board ensure that employees received the salaries and benefits they were entitled to?
- Did the Treasurer prepare bank reconciliations in a timely manner and provide the Board with accurate and timely financial reports?
- Did the Board provide adequate oversight of District financial activities?

Audit Results

The Board needs to improve controls to ensure that employees receive the salary and benefits to which they are entitled. District officials did not enforce certain collective bargaining agreement provisions and Board resolutions or maintain accurate leave records. As a result, District officials paid nine employees \$86,704 for 260 unused sick and vacation days without proper authorization. District officials paid 16 employees \$9,127 for 30 days in holiday bonus pay to which they were not entitled and overpaid one employee \$4,928 for 19 unused sick days upon retirement. In addition, seven employees were paid \$85,807 for 250 sick and vacation days (valued at \$88,748 as of December 31, 2014) that were not deducted from the employees' leave balances, resulting in overstated balances and the potential for future overpayments.

District officials did not properly monitor life insurance benefits and provided benefits without authority to do so. As a result, the District spent \$17,555 more than necessary for group term life insurance benefits. Furthermore, District officials did not receive payment for \$2,430 from a Commissioner for the cost of additional group term life insurance coverage.

We also found that the Treasurer did not prepare bank reconciliations in a timely manner and did not provide the Board with accurate and timely financial reports. Our review of 60 bank reconciliations for the District's five bank accounts for our audit period revealed that the Treasurer prepared 48 reconciliations more than 30 days after the statement closing dates and up to 279 days later. For example, a March 2014 bank statement was not reconciled until January 2015. In addition, the Superintendent did not sign or date 26 bank reconciliations to indicate his review. Although the Superintendent signed 34 reconciliations, 33 of these reconciliations were not dated. Therefore, we were unable to determine the timeliness of his reviews.

Finally, the Board did not provide adequate oversight of the District's financial activities. The Treasurer did not file the 2012, 2013 and 2014 annual financial reports with the Office of the State Comptroller and the District's 2012 and 2013 financial records were not audited in a timely manner. The District did not retain an external auditor until October 2014 to audit the 2013 financial records and November 2014 to audit the 2012 financial records. Because the Treasurer did not prepare and file the required financial documents in a timely manner, valuable and timely financial information was not available to the Board, District management and the public. As a result, the Board and District officials were unable to accurately assess the District's financial condition.

Comments of District Officials

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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

Introduction

Background

The Town of Hempstead Sanitary District No. 1 (District) is located in the Town of Hempstead in Nassau County. The District provides refuse and recycling pickup to over 50,000 residents and some commercial properties in the Villages of Cedarhurst, Hewlett, Hewlett Bay Park, Hewlett Harbor, Hewlett Neck, Inwood, Lawrence, Woodmere and Woodsburgh, and in unincorporated parts of Lynbrook and Green Acres.

The District is governed by an elected five-member Board of Commissioners (Board). The Board is responsible for providing oversight of District operations and making sound financial decisions in accordance with the law and in the best interest of its taxpayers. The District Superintendent (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for day-to-day management under the Board's direction. The District Treasurer (Treasurer) is the chief fiscal officer responsible for receiving, disbursing and maintaining custody of District funds; maintaining the accounting records; reconciling bank accounts; and providing the Board with financial reports. The District's total expenditures for 2014 were approximately \$19.4 million, funded primarily with real property taxes.

Objective

The objective of our audit was to evaluate selected District financial activities. Our audit addressed the following related questions:

- Did the Board ensure that employees received the salaries and benefits they were entitled to?
- Did the Treasurer prepare bank reconciliations in a timely manner and provide the Board with accurate and timely financial reports?
- Did the Board provide adequate oversight of District financial activities?

Scope and

Methodology

We examined the District's financial operations for the period January 1, 2014 through December 31, 2014. We extended our scope back to January 1, 2011 to review selected payroll activities and financial reporting.

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 C of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional

judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or the relevant population size and the sample selected for examination.

**Comments of
District Officials and
Corrective Action**

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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

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 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 Secretary's office.

Salaries and Benefits

The Board is responsible for establishing effective internal controls over payroll. Such controls help ensure that employees are paid those salaries and benefits to which they are entitled and that the terms of written agreements and resolutions are enforced. Good controls include having written policies and procedures to provide reasonable assurance that complete and accurate payroll records are maintained, leave time earned and used is monitored and accurately recorded and salary and benefit payments are properly calculated.

The District has approximately 136 employees, and salary and benefits represented approximately 66 percent of District expenditures for 2014. The District's collective bargaining agreement (CBA), which covered select classes of employees, was effective from January 1, 2011 through December 31, 2014. This contract does not cover management and office staff who are nonunion employees appointed annually by the Board. In accordance with Board resolution, the benefits package provided for employees subject to the CBA is applied to management personnel, except when the Board has adopted a greater benefit.

The Board needs to improve controls to ensure that employees receive the salary and benefits to which they are entitled. District officials did not enforce certain CBA provisions or maintain accurate employee leave records. As a result, District officials paid nine employees \$86,704 for 260 unused sick and vacation days without proper authorization. District officials paid 16 employees \$9,127 for 30 days in holiday bonus pay to which they were not entitled and overpaid one employee \$4,928 for 19 unused sick days upon retirement. In addition, seven employees were paid \$85,807 for 250 sick and vacation days that were not deducted from the employees' leave balances, resulting in overstated balances and the potential for future overpayments.¹

District officials also did not properly monitor life insurance benefits and provided benefits without authority to do so. As a result, the District spent \$17,555 more than necessary for group term life insurance benefits. Furthermore, District officials did not receive \$2,430 from a Commissioner for the cost of additional group term life insurance coverage.

¹ If the leave balances are not corrected, District officials could potentially pay employees for these days in the future, which could be at a higher value because payments are based on salary rates in effect when the days are paid. As of December 31, 2014 these days were valued at \$88,748.

Leave Time Pay

The Board must authorize all payments for accrued leave time either by approving the CBA or by adopting a resolution. District officials should review payroll calculations to ensure that payments related to accruals are accurate and made in accordance with authorized CBA provisions and that there are sufficient available leave balances before payments are issued. District officials must also ensure that all leave days paid and used are deducted from the employees' leave balances.

The District's CBA stipulates that an employee who has accumulated 100 or more sick days may elect to be paid for not less than 10 or more than 25 sick days once during the term of the contract. In addition, the CBA states that the District shall prepare election forms for such purpose and that all permanent employees shall be paid for unused sick leave in a lump-sum payment upon retirement. In addition, the Board passed a resolution allowing all administrative and management personnel who have accumulated 10 or more vacation days to be paid for not less than 10 or more than 25 such days once each calendar year.

We reviewed all payments made to employees for leave time during the CBA's term to determine if District officials complied with contract provisions and Board resolutions. The District made 29 payments to nine employees for unused sick and vacation leave totaling \$163,530 during the four-year period. District management did not have an effective process to ensure that leave payments were authorized in accordance with the CBA. Although the CBA stipulated that employees may elect to get paid once for unused sick days during the CBA's term, the District made 12 payments totaling \$71,864 to seven employees for a combined total of 220 unused sick days beyond what is authorized in the contract. For example, two employees received four payments each for unused sick leave during the four-year period. These employees received three additional payments each, totaling \$21,057 for 70 unused sick days² over the amounts authorized by the contract. Another employee received two extra payments totaling \$21,585 for 50 unused sick days. District officials were unable to provide us with the election forms supporting these leave payment requests.

Despite a resolution limiting payment to nonunion employees for vacation days to once per calendar year, the District made three additional payments totaling \$14,840 to two employees for vacation days over amounts authorized. One employee received two payments for vacation days during 2011 and two payments in 2012. The two

² One employee received three extra payments totaling \$12,803 for 40 sick days; the other employee received three extra payments totaling \$8,254 for 30 sick days.

additional payments totaled \$13,377 for 35 vacation days.³ In 2011, another employee received two payments for vacation days within the same calendar year. The additional payment for this employee's five vacation days totaled \$1,463.

We also reviewed retiree lump-sum payments for unused leave made during our audit period and found three employees received such payments totaling \$67,879. District officials overpaid one of these employees \$4,928 for 19 unused sick days. District officials indicated this was a clerical error and that they were in the process of recouping the overpayment.

Because District officials did not enforce certain CBA provisions and Board resolutions or review retirement payment calculations and corresponding leave balances for accuracy, employees were paid \$86,704 for unused sick and vacation leave more than authorized in the CBA or Board resolution, and one employee was overpaid \$4,928 upon retirement.

Holiday Bonus Pay

District officials must sufficiently review salaries and benefits provided to employees for accuracy and appropriateness. Such a review must ensure the CBA and Board resolutions are complied with and that employees meet all the necessary requirements to be entitled to payment.

The CBA entitles covered employees to receive a holiday bonus equal to one day's pay for each of eight specified holidays provided the employee works the day before the holiday and the two consecutive days after the holiday. Employees are also entitled to a bonus if they work on four additional holidays, when the District is open, and must also work the day before the holiday and the two consecutive days after those holidays.⁴ Bonus pay is paid in addition to pay received for the holiday, and thus an employee may receive up to two days of pay for each of the 12 holidays.

We reviewed all payroll payments paid to the 20 highest paid employees during 2014 and found that District officials paid 19 employees⁵ \$66,247 in holiday bonus for 225 days during the audit period. District officials paid 17 of these employees a holiday bonus for all 12 holidays. However, 16 of these employees did not work

³ This employee received extra payments of \$9,285 for 25 vacation days in 2011 and \$4,092 for 10 vacation days in 2012.

⁴ A memorandum of agreement between the District and the union states that employees who use previously scheduled personal and/or vacation leave on one or more of the two work days following a holiday shall be entitled to the bonus provided they report to work the day before and the day after their scheduled personal and/or vacation leave.

⁵ See Appendix B for more information on our sampling methodology.

the required number of days before and after the holiday to receive bonuses for all holidays paid. As a result, they received payments totaling \$9,127 for 30 days of holiday bonus pay to which they were not entitled.

Accrued Leave Balances

A good system of internal controls ensures employee leave accruals are granted in accordance with contract provisions and accurate records are kept of each employee's leave time to ensure employees earn and use leave time to which they are entitled. It is also important to design procedures to ensure that leave time paid and used is properly deducted from the employees' leave accrual balances.

The CBA specifies that employees covered by the agreement are entitled to a fixed number of sick days each month and that up to 200 sick days may be accumulated. Vacation is granted based on length of continuous employment and personal days are based on an employee's employment date. A Board resolution permits nonunion employees to accumulate and carry forward up to 25 vacation days.⁶ The CBA requires unused personal days be paid to covered employees at straight time during December each year.

The District maintains employees' sick leave balances in two separate sick leave record books (one for union employees and one for nonunion employees.) Whenever an employee uses sick leave, the payroll clerk makes an entry in the appropriate record book and updates the computerized leave software program (program). District officials told us that the record book is the main source used for recording sick day use, while the program is the main source used for recording vacation days, even though the program is capable of recording both sick and vacation days.

District officials also told us that at the beginning of each year the Superintendent adjusts employees' leave balances for leave earned and used during the past year. He also brings these balances forward to the current year in the appropriate sick leave record book. Despite the program's functionality, the beginning leave balances are never entered into the program to make the leave accrual record process more efficient. For example, if an employee needs to know their current leave balance, the payroll clerk must refer back to the sick leave record book and manually calculate the employee's current balance.

We reviewed all payments made to employees for leave time during the CBA's term to determine if leave balances were accurately

⁶ The Superintendent is authorized to carry forward 75 vacation days.

maintained. District officials made 13 payments to seven employees for 200 sick and 50 vacation days totaling \$85,807⁷ which were not deducted from the corresponding leave balances. For example, one employee was paid \$32,883 for 40 unused sick days and 40 vacation days and another employee was paid \$14,737 for 50 sick days, but neither of these employees' leave balances were reduced to reflect the leave time paid.

We also recalculated the leave time earned and used and leave balances for 19 employees⁸ during 2014. We found that 13 employees had sick, vacation and personal leave balances that were overstated by a combined 243 days valued at \$85,842 as of December 31, 2014. This included 181 sick days valued at \$61,468, 61 vacation days valued at \$24,084 and one personal day valued at \$289.⁹ Approximately 80 percent of these overstatements were the result of paying for leave time that was not deducted from five employees' leave balances.¹⁰ The other eight employees' combined leave balances were overstated by 15 vacation days valued at \$4,226 and six sick days valued at \$1,232 because the leave used was not accurately deducted.

District records showed that four employees exceeded the 200 sick day limit by carrying forward an excess of 69 sick days valued at \$20,841 to 2015. Additionally, four nonunion employees exceeded the 25 vacation day limit and carried forward an additional 51 vacation days valued at \$16,673 to 2015. The Superintendent told us employees were allowed to accumulate excess leave balances to prevent them from disrupting District operations by taking time off solely to keep the balances under the limit.

Because District officials did not accurately account for all leave time used or paid and did not enforce the CBA and Board resolutions, employee leave balances were overstated. This could result in employees taking leave to which they are not entitled or future higher cost to the District if these inaccurate leave balances are paid out upon separation or retirement.

Group Life Insurance

General Municipal Law (GML) provides the authority for a special district's board of commissioners, by resolution, to provide its officers and employees with group life insurance as a fringe benefit. However, there is no similar provision in the law to provide group

⁷ These days were valued at \$88,748 as of December 31, 2014. For employees that were no longer employed as of December 31, 2014, we used their last salary for our calculation.

⁸ See Appendix B for more information on our sampling methodology.

⁹ One employee was paid for all seven personal days at year-end, although he used one personal day during the year.

¹⁰ The District paid these employees for 135 sick days totaling \$49,124 and 46 vacation days totaling \$19,859 that were not deducted from the leave balances.

term life insurance to retirees outside of a CBA.¹¹ Similar to other fringe benefits, life insurance should be monitored to ensure it is provided in a cost effective manner to employees in accordance with written agreements, Board resolutions and GML.

The CBA authorizes a \$20,000 group term life insurance policy for union employees and retirees who were covered by the CBA before retirement. By resolutions, the Board authorized group term life insurance coverage of \$50,000 for management and administrative staff and for each Commissioner with an option to obtain additional coverage at the individual Commissioners' expense.

During 2014, the District paid \$79,512 in group term life insurance premiums. We reviewed the May 2014 life insurance invoice and found the District was providing life insurance coverage to nonunion (i.e., management and administrative) retirees¹² without authorization to do so. In addition, officials did not ensure that the total cost of additional insurance was withheld from a Commissioner's pay.

The District paid approximately \$11,045 for life insurance premiums during our audit period for nine retirees who were nonunion employees when they retired from the District and there was no legal authority to extend such coverage to them. In addition, we found that the attorney was receiving \$200,000 in life insurance coverage that cost the District about \$4,080 in 2014. Although District officials provided a Board resolution from 1999 authorizing \$50,000 in group term life insurance coverage for the attorney, a subsequent 2013 agreement with the attorney did not include any provision for life insurance. Officials were unable to provide documentation authorizing the \$200,000 in coverage. As a result, in 2014 the District unnecessarily paid \$4,080 in life insurance premiums.

While the Board adopted a resolution which required Commissioners to pay the additional cost for group term life insurance coverage that exceeded \$50,000, it did not provide an adequate method to determine the actual cost of this additional coverage or ensure that payment was made. For example, one Commissioner received \$300,000 in term life insurance coverage. The premium for the additional \$250,000 in coverage totaled \$5,100, which was the Commissioner's responsibility. However, the District only collected \$2,670 from the Commissioner, a difference of \$2,430.

¹¹ Although no statute expressly authorizes life insurance for retirees, it may be provided for in a CBA.

¹² Although the CBA authorizes this benefit to its members, CBA benefits that are not independently authorized by statute may not be extended by resolution to officers or employees who are not covered under the CBA.

The cost of life insurance premiums varies depending on many factors, such as the amount of coverage provided, the number of covered employees, the employees' ages, the type of work performed and whether medical underwriting is required. With all these factors considered, the District was billed the standard rate of \$1.70 for \$1,000 of coverage each month. District officials used this rate to calculate the Commissioner's additional coverage cost, rather than determining the actual cost based on the factors specific to the individual.

We used the portability rate¹³ shown in the District's insurance policy to recalculate the approximate premium for each employee. Because life insurance rates increase significantly based on an individual's age and amount of coverage providing Commissioners additional coverage had a significant impact on the group rate. As a result, the District was paying a standard group rate (\$1.70 per \$1,000) that was higher than the rate listed for an individual 64 years old (\$1.47 per \$1,000). For example, using the portability rate for a 40-year-old individual (\$.266 per \$1,000 of coverage), \$50,000 of coverage would cost about \$160 annually, while using the portability rate for an 80-year-old individual (\$14.09 per \$1,000), \$50,000 of coverage would cost about \$8,454 annually.

District officials did not consider the true cost of providing the additional coverage when authorizing benefits and calculating the amounts to be paid by Commissioners for additional life insurance coverage. Because District officials did not properly monitor life insurance benefits and provided benefits without authority to do so, the District spent \$17,555 more than necessary for group term life insurance benefits.

Recommendations

The Board should:

1. Ensure that District officials enforce the CBA's provisions and its resolutions to ensure that employees' are paid only the salary and benefits to which they are entitled.
2. Review insurance policies and consult with its counsel and insurance broker to ensure all insurance benefits are in compliance with legal requirements.

District officials should:

3. Implement procedures to ensure that employees' leave balances are adjusted for all amounts paid for unused leave time.

¹³ The portability rate is the rate listed in the District's policy that an individual is charged if they are no longer employed by the District and choose to keep their coverage. The premiums are based on the individual's age.

4. Review the accuracy of holiday bonus pay to ensure employees meet the contractual requirements before making such payments.
5. Ensure that any employee who receives additional group life insurance coverage pays the correct premium.

Treasurer

Reconciling bank account cash balances with the accounting records is an essential control activity which allows District officials to verify that all cash receipt and disbursement transactions are captured and correctly recorded in a timely manner. Monthly bank reconciliations provide a way for officials to identify, correct and document differences between the District's records and bank transactions. It is also a good business practice to have someone other than the individual who prepares bank reconciliations review them.

The Treasurer did not prepare bank reconciliations in a timely manner and did not provide the Board with accurate and timely financial reports. District officials told us the Treasurer submits bank reconciliations to the Superintendent for review, which are subsequently presented to the Board. However, our review of 60 bank reconciliations for the District's five bank accounts¹⁴ during the audit period revealed that the Treasurer prepared 48 reconciliations more than 30 days after the statement closing date and up to 279 days later. For example, the March 2014 bank statement was not reconciled until January 2015. The Superintendent also did not sign or date 26 bank reconciliations to document when he reviewed them. Although the Superintendent signed 34 reconciliations, 33 of these reconciliations were not dated. Therefore, we were unable to determine the timeliness of his reviews.

We performed the bank reconciliations for August and September 2014 for the general checking and payroll bank accounts. Our August 2014 checking reconciliation generally agreed with the Treasurer's bank reconciliation, except for minor differences, which we discussed with District officials. However, our September 2014 checking account bank reconciliation differed from the Treasurer's by \$663,353.

The discrepancy was made up of three checks¹⁵ that were recorded in the check register in September but not issued. This occurred because the Treasurer entered vendor invoices into the accounting system as checks instead of accounts payable.¹⁶ As a result, this amount reduced the cash balance shown on the September bank reconciliation, even

¹⁴ The District has the following five bank accounts: general fund, payroll, savings, employee wage garnishment and dump receipts revenue (for fees the District collects from private landscapers dumping their waste at District facilities).

¹⁵ One of these checks was erroneously entered twice, thereby further reducing the amount shown as available cash.

¹⁶ Vendor invoices should be entered into the software program's accounts payable module as a liability until they are paid, at which time a check is created and the money is deducted from the cash balance.

though these checks were not actually issued until three months later.¹⁷ Therefore, the District's September 2014 cash balance that was presented to the Board was inaccurate. Our payroll account reconciliations generally agreed with the Treasurer's reconciliations.

We reviewed all 229 disbursements the Treasurer made from the general checking account during August and September 2014 totaling \$4.9 million to determine if the Board authorized these claims for payment. The Treasurer made four disbursements in September 2014 totaling \$4,352 without Board authorization. These disbursements appeared to be for legitimate District expenditures. We reviewed canceled check images for these two months to verify that the vendor names and amounts agreed with those the Board authorized and the amounts recorded in the accounting records. We did not find any discrepancies.

However, our review of bank statements revealed that the District paid \$1,300 in bank fees. Fees totaling \$950 (73 percent) came from a wage garnishment account, which had minimal activity. For example, in September 2014 the bank charged the District a \$458 service fee mainly for overdraft charges. Had District officials properly monitored the bank account balances and made the garnishment withdrawals from the payroll account, the District would not have incurred these fees.

Lastly, we reviewed 19 canceled check images totaling \$56,120 to determine if these payments were legitimate District expenditures and the related claims contained sufficient supporting documentation. While all of these payments appeared to be for legitimate District purposes, two claims totaling \$925 for District election expenditures did not contain sufficient supporting documentation.

Because the Treasurer did not reconcile bank accounts in a timely manner and accurately report financial activity and cash balances, the Board's ability to make sound financial decisions was inhibited. In addition, because District officials did not properly monitor the bank account balances, the District incurred unnecessary bank fees. As a result, the Board does not have adequate assurance that the accounting records are correct or that District money is properly accounted for, which increases the risk that discrepancies may not be detected or resolved in a timely manner.

Recommendations

The Treasurer should:

6. Prepare timely and accurate bank reconciliations and ensure that any discrepancies are promptly identified and resolved.

¹⁷ The two checks that were issued to cover these invoices were dated December 11, 2014.

7. Accurately record and report transactions.
8. Ensure that all cash disbursements are authorized before payment is made.

The Superintendent should:

9. Review, sign, and date each bank reconciliation to indicate approval, and resolve all discrepancies in a timely manner.

The Board should:

10. Review the bank fees incurred on bank accounts and consider consolidating accounts.

Financial Reporting

GML requires the Treasurer to file an annual financial report with the Office of the State Comptroller (OSC) within 60 days after the fiscal year-end. The annual report is an important fiscal tool which provides the Board with necessary information to monitor District operations and provides other interested parties with a summary of District financial activities. The Board may also provide oversight by annually auditing the Treasurer's financial records or hiring an external auditor to conduct such an audit.

The Board did not provide adequate oversight of the District's financial activities. The Treasurer did not file the 2012, 2013 and 2014 annual financial reports with OSC. In addition, the District's 2012 and 2013 financial records were not audited in a timely manner. The District did not retain an external auditor until October 2014 to audit the 2013 financial records and until November 2014 to audit the 2012 financial records. The Treasurer indicated he plans to file all the annual financial reports with OSC after the audited financial statements are issued for these years.

The Board minutes for the audit period did not provide a clear indication that the Treasurer presented sufficient financial reports to the Board. For example, the March 2014 Board minutes indicated that the Treasurer gave a report on the District's financial status with no specific details. We interviewed a majority of District Commissioners who all indicated that they receive sufficient information about the District's financial activities. Despite the Board being satisfied with the level of reporting provided, officials were unable to provide us with financial statements at the beginning of our audit, and subsequent draft financial reports provided to us indicated the District incurred a \$2.5 million operating deficit in 2012, a \$422,010 operating deficit in 2013 and a projected \$1 million deficit in 2014.¹⁸

Because the Treasurer did not prepare and file the required financial documents in a timely manner, valuable and timely financial information was not available to the Board, District management and the public. As a result, the Board and District officials were unable to accurately assess the District's financial condition.

¹⁸ While District officials provided us with draft financial statements for 2012 and 2013, we were unable to verify the operating deficits and adequately assess the District's financial condition because District officials were unable to provide us with the final audited financial statements for 2012, 2013 or 2014 during our fieldwork.

Recommendations

The Board should:

11. Ensure that the Treasurer files all required financial reports in a timely manner.
12. Annually audit or cause an audit of the District's financial records.
13. Ensure that the Board minutes accurately reflect the Treasurer's reports presented at Board meetings.
14. Assess the District's financial condition and take necessary action to address any deficits.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

CHAIRMAN
JAMES J. VILARDI
COMMISSIONERS
IRVING J. KAMINETSKY
HARRY BELTRANI
FRANK ARGENTO
LINO VIOLA



GEORGE PAPPAS, SUPERINTENDENT
SALVATORE EVOLA, TREASURER
DOMINICK MINERVA, LABOR COUNSEL
NATHANIEL M. SWERGOLD, GENERAL COUNSEL

SANITARY DISTRICT No. 1 TOWN OF HEMPSTEAD

January 7, 2016

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

Dear Mr. McCracken,

I am in receipt of the preliminary draft findings of an audit of Sanitary District #1 conducted by your office entitled Select Financial Activities, Report of Examination 2015M-206. On behalf of the Board of Commissioners, I am enclosing our comprehensive comments to each of the audit findings and a corrective action measure as required.

The Board of Commissioners and staff of Sanitary District #1 view an audit as a collaborative effort to make local government work better for our constituents. This is precisely why the Board of Commissioners on August 1, 2015 adopted a resolution creating the position of Compliance Officer/Internal Auditor. Our goal with that action was to create an internal accounting structure with flawless efficiency. Legendary football coach Vince Lombardi always preached to his players that "perfection is not attainable, but if we chase perfection we can catch excellence". That is exactly what we are striving to do at Sanitary District #1.

The audit findings bring to light clerical and bookkeeping issues for which improved procedures have already been put into effect. Prior to even being advised of this audit, the District effectuated a more enhanced organizational system of checks and balances to create a higher standard of care for the interests of our taxpayers. Some of the issues raised in the audit will be strenuously refuted, and some will be acknowledged with corrective action. The Board of Commissioners and staff however, wholeheartedly embrace the notion that we can always improve, and look forward to working in close concert with the staff of the NY State Comptroller's office, now and in the future.

~~Sincerely Yours,~~

~~James J. Vilardi~~
~~Chairman~~

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NYS Audit Findings
Sanitary District #1 Responses & Corrective Action

1. **NYS Audit Finding:** The Treasurer did not file the 2012, 2013, and 2014 annual financial reports with the Office of the State Comptroller and the District's 2012 and 2013 financial records were not audited in a timely manner. The District did not retain and external auditor until October 2014 to audit the 2013 financial records and November 2014 to audit the 2012 financial records. Because the Treasurer did not prepare and file the required financial documents in a timely manner, valuable and timely financial information was not available to the Board, District Management, and the public.

1a. **Sanitary District #1 Response:**

The Board of Commissioners has provided adequate oversight over District financial activities and has demonstrated a comprehensive knowledge of the District's financial condition.

As Chairman of the Board of Commissioners I submitted to NY State audit staff numerous documents and emails documenting and demonstrating a complete and thorough knowledge by the Board of the District's current financial condition including financial and budget projections through the year 2020. In 2008 I prepared on behalf of Sanitary District #1 The 2008 Mission Statement – Management Efficiency Plan & Policy Priorities as a financial and management blueprint for the District. A second five year policy initiative was prepared in 2013 with amendments on May 20th, 2015 and June 9th, 2015.

See
Note 1
Page 29

In addition, the Board of Commissioners prepared a detailed chronology of the District's financial condition for submission to the Town of Hempstead Comptroller's office in conjunction with short term borrowing. These documents together with various emails which date back several years demonstrate without any doubt to the objective observer that the Board of Commissioners was well aware and comprehensively informed of the District's financial condition and took all immediate and appropriate steps to ensure a stable financial future.

The District acknowledges that the District Treasurer was tardy at completing certain administrative accounting procedures, ensuring that annual audits were done in a timely fashion, and submitting a more formal report to the Board of Commissioners at each meeting. However, I could not be more clear that the failings of the District Treasurer in no way inhibited the Board's ability to make informed, logical, and thoughtful decisions about important District fiscal policy. As Chairman of the Board I was requesting and receiving real time financial data from the District Treasurer and using that information

See
Note 2
Page 29

along with the Board of Commissioners and staff to formulate short, medium, and long term District Fiscal policy.

Asset Sales and other District Fiscal Initiatives

Based on real time financial data the Board of Commissioners enacted a plan in early 2012 to sell underutilized land, enhance and expand the District’s recycling program, secure cost cutting measures in District labor, and establish a steady non tax revenue stream in order to replenish the fund balance and cure the District’s annual budget deficit. To maintain that the Board of Commissioners was unable to assess the financial condition of the District due to the actions or non actions of the Treasurer is simply not an accurate statement, and further I think could give a third party reader a false impression of the Board’s involvement in ongoing fiscal policy.

Although it is not an excuse but rather an explanation, I would remind the audit staff that one of the greatest natural disasters on record, Superstorm Sandy devastated our area on October 31st 2012. The Five Towns Community was hit enormously hard by this natural disaster, and a great percentage of our residents were impacted by the storm and many are suffering to this day. During the aftermath of Sandy Sanitary District Board of Commissioners and staff worked around the clock to assist our residents as we collected and disposed of over 12 million pounds of storm debris. For an entire year after this tragic event the Sanitary District was completely consumed with assisting residents while trying to keep the District on solid financial footing. This includes the District Treasurer who was charged with the preparation of all FEMA reimbursement documents which were absolutely critical to the District’s financial future.

1b. Corrective Action if Required: See Section 6b

2. **NYS Audit Finding:** The Board needs to improve controls to ensure that employees receive the salary and benefits to which they are entitled. District officials did not enforce certain collective bargaining agreement (CBA) provisions and Board resolutions of maintain accurate leave records. As a result, District officials paid nine employees \$86,704 for 260 unused sick and vacation days without proper authorization.

2a. Sanitary District #1 Response: Audit Finding is Incorrect

Sanitary District #1 maintains that the Superintendent, without exception or interruption was granted the discretion by the Board of Commissioners and the CSEA Union to approve the sale back of unused sick days and vacation days by District employees, and therefore there was no unauthorized sale of sick days. Part of the underpinning of this discussion lies within the collective bargaining agreement currently in effect which grants the Superintendent broad authority over the daily management of Sanitary District operations. “Management Rights – The administration of the Employer and the direction of the employees in the Union here involved, including the hiring, promotion and retiring of employees, the suspending, discharging or otherwise disciplining of employees, the laying off and calling to work of employees in connection with any reduction or increase in working forces, the scheduling of work shifts and the assignment of employees thereto,

See
Note 3
Page 29

as well as the control and regulation of the use of all equipment and property of the Employer, and the manner in which job assignments shall be carried out, including its right to require that collected refuse and garbage be dumped at either the Oceanside Transfer Station, the Merrick Transfer Station and/or the Hempstead Recycling Facility prior to the termination of the work day, and the right to sub-contract shall remain the exclusive function of the Employer, subject, however, to the terms and provisions of this agreement, as well as to any and all applicable Federal, State, and/or Municipal statutes, ordinances, and regulations.”

Further evidence of the Superintendent’s authority to approve such employee requests are outlined in Article XXII of the CBA Entitled “Past Practices”.

“Existing past practices of the public employer regarding management rights and employee rights shall remain unchanged, unless a change is required by a provision of this agreement.”

“The most often-cited reference to “past practice” is the article by Arbitrator Richard Mittenthal entitled: “Past Practice and the Administration of Collective Bargaining Agreements”. 59 Michigan Law Review (1961). Arbitrator Mittenthal’s definition of past practice is: A course of conduct that is the understood and accepted way of doing things over an extended period of time, and thus, mutually binding and enforceable. This is a simple and straightforward definition. It is well established that the purpose of a past practice could be to clarify an ambiguous contract provision, to give specificity to general contract benefit or limitation, the creation of an entirely new benefit outside the contract, or **to amend or even contradict a clear and unambiguous provision of the contract.**”

2b. **Corrective Action if Required:** Notwithstanding the District’s response to this finding, the Board of Commissioners has now adopted a resolution codifying the following procedure for an employee to sell accrued time:

1. The employee will be required to initiate the process by submitting a written request to the Superintendent’s office.
2. The request will be routed from the Superintendent’s office to the Treasurer for approval. The Treasurer will verify that the employee has a positive fund balance of accrued time sufficient to satisfy the request.
3. Upon approval of Treasurer, request will be routed to the Internal Auditor’s office for verification and approval.
4. Only upon approval of the Treasurer and Internal Auditor, the Superintendent within the discretion of that office, may approve the request and submit to the Board of Commissioners for advisement purposes only.
5. Notwithstanding the fact that the District maintains that the Superintendent has had the absolute authority to approve the sale of sick days as explained herein, the District will seek to enter into a memorandum of agreement with representatives of the CSEA Union to alter the contract accordingly.

See
Note 4
Page 29

See
Note 5
Page 29

2c. **The Current “Past Practice” Benefits Taxpayers:** Under the current CBA a employee of Sanitary District #1 may accumulate and be paid for 200 sick and vacation

days at retirement. From a financial standpoint it benefits the District for an employee to sell time throughout his career and not accumulate the 200 days to sell at retirement because the District is paying the 2015 wage per day as opposed to a much later future date for which the wage per day could be substantially higher. This is an example in which a “Past Practice” which is contrary to the CBA, could be a great financial benefit to the District.

3. **NYS Audit Finding:** District officials paid 16 employees \$9,127 for 30 days in holiday bonus pay to which they were not entitled and overpaid one employee \$4,928 for 19 unused sick days upon retirement.

3a. **Sanitary District #1 Response:** The Sanitary District maintains that the first finding is a result of a misinterpretation of the Collective Bargaining Agreement by NYS audit staff, but acknowledges that the second part of the finding was a clerical error which has now been corrected. As per the CBA, District employees who report to work the day before a holiday and the two days following a holiday, are entitled to one bonus day. The finding stems from the opinion that a worker who uses an approved vacation day on one of the three required work days which establishes bonus day eligibility, is therefore not entitled to the bonus day. The circumstance of a pre-approved holiday, falling on either or all of the required work days to establish holiday bonus day eligibility, is simply not contemplated in the CBA. The long established “Past Practice” of management accepting a pre-approved vacation day as a legitimate “work day” qualifying the employee for a bonus day is not specifically barred in the CBA.

See
Note 6
Page 30

Finding – Part 2

A bookkeeping error did in fact cause the overpayment of one employee upon retirement of \$4,928 for nineteen (19) unused sick days. The clerical error has now been corrected.

3b. **Corrective Action if Required:** Employee has agreed to reimburse the District \$4,928.00 by March 1, 2016.

4. **NYS Audit Finding:** Seven employees were paid \$85,807 for 250 sick and vacation days (valued at \$88,748 as of December 31, 2014) that were not deducted from the employees’ leave balances resulting in overstated balances and the **potential** for future overpayments.

4a. **Sanitary District #1 Response:** The District Acknowledges that a bookkeeping error/oversight caused the overstating of sick and vacation day balances for certain District employees. A corrective action plan/methodology was effectuated in 10-2015 to ensure proper record keeping in the future. However, I would make the following points:

1. The Board of Commissioners and staff has always endeavored to make Sanitary District #1 more transparent, to maximize efficiency, and make the District less susceptible to clerical errors and/or fraud. To that end, the Board of Commissioners created the position of Compliance Officer/Internal Auditor to monitor all internal

District operations and to audit on a continual basis District policy, procedure, and methodology to ensure the highest standard of care of taxpayer funds. The District is quite sure that this clerical error would have been detected by the Internal Auditing Staff in the ongoing effort to create a comprehensive audit system of cross checks and balances of all District financial activity and transactions.

2. Audit staff does correctly point out that this particular clerical error indicated only the **potential** for overpayment in the future. The seven employees who were paid for 250 sick and vacation days were legally in accordance with the CBA entitled to the payment and furthermore the payment from the District to the employees was legal and proper.

See
Note 7
Page 30

4b. **Corrective Action if Required:** Notwithstanding the District's response to this finding, the Board of Commissioners has now adopted a resolution codifying the following procedure for an employee to sell accrued time:

1. The employee will be required to initiate the process by submitting a written request to the Superintendent's office.

2. The request will be routed from the Superintendent's office to the Treasurer for approval. The Treasurer will verify that the employee has a positive fund balance of accrued time sufficient to satisfy the request.

3. Upon approval of Treasurer, request will be routed to the Internal Auditor office for verification and approval.

4. Only upon approval of the Treasurer and Internal Auditor, the Superintendent within the discretion of that office, may approve the request and submit to the Board of Commissioners for advisement purposes only.

See
Note 8
Page 30

5. **NYS Audit Findings:** District officials did not properly monitor life insurance benefits and provided benefits without authority to do so. As a result, the District spent \$17,555 more than necessary for group term life insurance benefits. Furthermore District officials did not recover payment of \$2,430 from a Commissioner for the cost of additional group term life insurance coverage.

5a. **Sanitary District #1 Response:** The Audit report states that the District spent \$17,455 more than necessary for group term life insurance benefits in 2014. This amount is calculated as follows:

\$ 11,045 For premiums paid for Non Union Retirees

\$ 4,080. For premiums paid for General Counsel

\$ 2,430. For additional premiums owed by a Commissioner for his additional \$250,000 in coverage.

The Commissioner should have been charged \$5,100 however he was only charged \$2670. The Commissioner was charged the reimbursement rate that was in effect when reimbursement became necessary, however when the premium increased his payroll withholding was not adjusted to reflect the increase in premium rate. Corrective measure is now in place.

According to the Cigna INA Life Insurance Policy that became effective 9/1/1994 Retirees are covered By the Life insurance Policy as Retirees. There is no reference as to Union or Non Union. However as per previous Board resolutions, Management will receive the same benefits as those listed in the Collective Bargaining Agreement. As per a Board of Commissioners resolution dated October 19th 1994, it was resolved “to accept the proposal submitted by CIGNA Insurance Company for ‘Group Term Life Insurance’.” It is quite clear from the declaration page of the policy referred to in that resolution which is policy number [REDACTED] effective September 1st 1994 that retirees are covered under the policy and all supervisors, management, and employees. It has already been determined that general counsel was at that time and continued to be an employee of Sanitary District #1 and was therefore covered under said policy.

In addition, at the time the original policy was written – the 5 Commissioners, Superintendent , Treasurer and General Counsel and Labor Counsel were covered under Class 1 “Supervisors and Management Employees” with a Life Insurance Benefit of 250,000 each . However, due to General Counsel’s health issues at that time, his benefit was reduced to \$200,000. The audit report states that a 1999 Board resolution authorized \$50,000 in group term life insurance coverage for the attorney. However, the resolution cited states that the General Counsel will receive an additional \$50,000 in life insurance coverage, not a total of \$50,000 as reported by audit staff. The report also states that the attorney’s 2013 agreement does not include any provision for life insurance. However, it was a benefit that was afforded to all Class 1 Employees , Just Health and Dental benefits were.

See
Note 9
Page 30

5b. Corrective Action if Required:

1. The Commissioner will reimburse Sanitary District #1 a total of \$2,430 by December 31st, 2016.
2. The District will immediately discontinue payments for non-union retiree life insurance premiums.

6. **NYS Audit Finding:** We [also] found that the Treasurer did not prepare bank reconciliations in a timely manner and did not provide the Board with accurate and timely financial reports. Our review of 60 bank reconciliations for the District’s five bank accounts for our audit period revealed that the Treasurer prepared 48 reconciliations more than 30 days after the statement closing date and up to 279 days later. For example, a March 2014 bank statement was not reconciled until January 2015. In addition, the Superintendent did not sign of date 26 bank reconciliations to indicate his review. Although the Superintendent signed 33 reconciliations, because he did not indicate the date of his review on any reconciliations reviewed, we were unable to determine the timeliness of his review. One bank reconciliation was both signed and dated.

6a. **Sanitary District #1 Response:** As Chairman of the Board of Commissioners I submitted to NY State audit staff numerous documents and emails documenting a complete and thorough knowledge of the District’s current financial condition including

See
Note 1
Page 29

financial and budget projections through the year 2020. In 2008 I prepared on behalf of Sanitary District #1 the 2008 Mission Statement – Management Efficiency Plan & Policy Priorities as a financial and management blueprint. A second five year policy initiative was prepared in 2013 with amendments on May 20th, 2015 and June 9th, 2015.

In addition, a detailed chronology of the District’s financial condition was prepared for submission to the Town of Hempstead Comptroller’s office in conjunction with short term borrowing. These documents together with various emails which date back several years demonstrate without any doubt to the objective observer that the Board was well aware and comprehensively informed of the District’s financial condition and took all immediate and appropriate steps to ensure a stable financial future.

The District Acknowledges that the District Treasurer was tardy in completing certain administrative accounting procedures and ensuring that annual audits were done in a timely fashion, however, I could not be more clear that the failings of the District Treasurer in no way inhibited the Board’s ability to make informed, logical, and thoughtful decisions about important District fiscal policy. The Board of Commissioners was requesting and receiving real time financial data from the District Treasurer and using that information along with District staff to formulate short, medium, and long term District Fiscal policy.

The Board of Commissioners again refutes the allegation that due to the actions of the District Treasurer the Board of Commissioners was uninformed about the financial condition of the District and was uninvolved in formulating District fiscal policy. It should be abundantly clear from documents supplied to audit staff that the Board of Commissioners was comprehensively immersed in the financial underpinnings of the District. Not only do the many documents and memos supplied to audit staff demonstrate a thorough understanding of District finances, but also elaborate on our financial plan to cure the District’s structural budget deficit and outline a path to future financial stability. This kind of short, medium, and long range financial planning can only be accomplished with a thorough understanding of District finances.

See
Note 2
Page 29

By the same token the Board of Commissioners fully understands the importance of the annual NY State Comptroller filings and ensuring that the District’s annual audit is done in a timely fashion. We do not wish to give the impression that we take these oversights lightly or do not assign to them the appropriate importance. All filings that this audit brings to our attention have already been completed as the corrective action. What this Board does strenuously object to is the assertion that these late filings have impaired the Board’s stewardship of public funds, and that simply is not the case and should be quite obvious.

6b. Corrective Action if Required:

1. When the Board of Commissioners became aware that annual audits were delayed, immediate action was taken to assure compliance. As of the date of this correspondence, Sanitary District #1 is fully compliant with completion of annual audits and NY State Comptroller filings.

2. Upon analysis of the audit findings and through discussions with the Board of Commissioners and Sanitary District staff, it is apparent that the minutes of Board of Commissioners' meetings are not comprehensive enough, and may not detail the financial information the Board is receiving from the Treasurer in real time. To the causal observer, or upon reading District meeting minutes, it may be possible to arrive at an inaccurate conclusion that the Board of Commissioners is not adequately briefed on the District's financial condition and monthly financial activity. As a corrective action we will be working with the District Secretary to expand the scope of the minutes and to more comprehensively reflect the information and other discussions at Board meetings.

3. District Treasurer Reports – The Board of Commissioners will now require the District Treasurer to submit for the minutes of each Commissioner's meeting, a comprehensive financial reporting document which will serve as a "snapshot" of District finances and financial condition on a monthly basis. An example of this form can be found in.

4. As previously discussed within this document, the position of Compliance Officer/Internal Auditor has been created by the Board of Commissioners to ensure that annual audits are done in a timely fashion, to ensure that bank reconciliations are completed on a monthly basis, and to create a system of checks and balances for all financial transactions of the Sanitary District. Again, I will stress that the position of compliance officer was not created in response to this audit, but was created well before the District was even advised of this audit.

5. The District Treasurer will be placed on a one year probation period in order to assess future performance and ensure that all the functions of the treasurer are performed at the highest caliber.

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

A presentation on the District's budget projections was provided during our fieldwork. No emails from the Chairman were provided to us.

Note 2

Although the Board believes they are receiving real-time financial data from the Treasurer, the information that the Board relies on is inaccurate and incomplete. The failure to file financial reports with OSC prevents the Board and District residents from having access to valuable financial information and using it to make informed decisions.

Note 3

Our report does not question the Superintendent's authority over the daily management of District operations. Moreover, we acknowledge that "past practice" principles, as they pertain to employees within a bargaining unit represented under a CBA, are recognized by the courts in New York State. One criterion for a "past practice" is that it has continued uninterrupted for such a period of time as to create a reasonable expectation among employees that it would continue. In our view, those principles do not apply to managerial personnel outside of the bargaining unit to whom CBA benefits are "extended" or "applied" by Board resolution (e.g., *Aeneas vs. City of Geneva*, 92 NY2d 326). Managerial employees made up a majority of employees who received excess sick leave payments. We found one employee who was in the bargaining unit covered under the CBA that received an extra sick leave payment, which was not an ongoing practice. Our report continues to highlight areas where the Board should implement internal controls to ensure that CBA provisions and resolutions are followed.

Note 4

Requests for payment of leave time above those specifically authorized in the CBA or resolution should be submitted to the Board for authorization prior to payment. This corrective action does not address payments made to the Superintendent.

Note 5

Management employees made up the majority of employees who received more than one payment for sick days over the CBA's term and, therefore, were not covered by the CBA.¹⁹ One employee who was covered by the CBA received an excess sick leave payment totaling \$5,978. The remaining excess sick leave payments totaling \$65,887 were paid to six management employees²⁰ not covered by the CBA.

¹⁹ As stated in our report, the Board adopted a resolution which stated that the benefits package provided for employees subject to the CBA is applied to management personnel, except when the Board has adopted a greater benefit.

²⁰ The other two employees mentioned in the total quoted in the District's response received payments for additional vacation days above what is authorized in the Board resolution. The CBA does not provide for payments for unused vacation days to members.

Note 6

The contract states that employees who use personal and/or vacation leave on one or more of the two work days following a holiday shall NOT be entitled to the bonus, except for employees who have previously scheduled leave for one or more holidays following July 4th and Labor Day. A later memorandum of agreement extends this to all holidays for employees who use personal and/or vacation leave on one or more of the two days following a holiday. We did not include anyone who used those leave categories for the two days following a holiday in our calculation.

Note 7

When sick and vacation leave balances are overstated, employees may take vacation or sick leave to which they are not entitled or there is a potential for cashing in these same days again in the future. Because these payments would be made at some future time, presumably at a higher rate, we did not calculate the potential cost to the District. However, if these leave balances are not corrected, the cost of this “clerical error” will eventually be borne by District taxpayers.

Note 8

The stated corrective action does not address correcting the sick and vacation leave balances.

Note 9

At the time of our review, the May 2014 life insurance bill showed that all Class 1 employees were receiving \$50,000 in life insurance coverage, with the exception of the attorney and one Commissioner.²¹ The Board resolution provided to us and referred to by District officials states that the insurance shall be increased as follows: Class 1 (including the attorney): \$50,000. Officials did not provide us with a resolution authorizing the additional \$150,000 in coverage for the attorney. In addition, the attorney has since retired and is currently working for the District subject to an employment agreement that does not include life insurance.

²¹ The Commissioner is liable for the difference between the cost of the additional insurance and the \$50,000.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate selected District financial activities for the period January 1, 2014 through December 31, 2014. We extended our scope back to January 1, 2011 to review selected payroll activities. To accomplish our objective and obtain valid audit evidence, we performed the following steps:

- We interviewed District officials and employees to gain an understanding of District payroll, bank reconciliation and financial reporting procedures.
- We reviewed the CBA for the period January 1, 2011 through December 31, 2014 and relevant Board resolutions to gain an understanding of employee salary and benefits.
- We reviewed the attorney's employment agreement with the District.
- We reviewed the District's payroll registers from January 1, 2011 through December 31, 2014 to identify sick and vacation payments to employees for accrued leave time. We reviewed the District's leave and attendance records to determine the accuracy of these payouts, the leave balances before and after the payouts and the balances carried forward to the subsequent year.
- We reviewed unused personal leave payouts to the 19 highest paid employees during the audit period.
- We reviewed separation payouts for unused sick, personal and vacation leave to the three employees who retired in 2014.
- We reviewed the accuracy of holiday bonus payments to the 19 highest paid employees during the audit period to determine if they were in accordance with contracts and calculated accurately.
- We reviewed the District's group life insurance contract and the May 2014 life insurance invoice to determine if employee coverage was in accordance with the CBA or Board resolutions. When we selected this month for our sample, we had no expectation that more or fewer errors would occur in the sample month than in any other month.
- We determined whether the bank reconciliations for the audit period for five District bank accounts were prepared in a timely manner.
- We prepared bank reconciliations for the main checking and payroll accounts for August and September 2014 to determine accuracy of the bank reconciliations at the end of those months. When we selected these months for our sample, we had no expectation that more or fewer errors would occur in the sample months than in any other month.
- We reviewed all 229 disbursements from August 1 through September 30, 2014 from the general checking account to determine if the Board authorized them before payment. We selected

August 2014 because it had the highest dollar amount of disbursements and, for continuity purposes, we also selected the subsequent month.

- We reviewed a sample of 19 disbursements from August 2014 and September 2014 to determine if they were legitimate District expenditures. For our sample, we selected payments to vendors with unfamiliar names or unusual payment amounts.
- We reviewed Board minutes during the audit period to determine if the Board received financial reports.
- We reviewed draft financial statements for 2012 and 2013 to assess the District's financial condition.

We conducted this performance audit in accordance with 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.

APPENDIX D

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