



Greenlawn Water District Accounting Records

Report of Examination

Period Covered:

January 1, 2014 – February 28, 2015

2015M-231



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
ACCOUNTING RECORDS	4
Recommendations	6
APPENDIX A Response From District Officials	8
APPENDIX B Audit Methodology and Standards	12
APPENDIX C How to Obtain Additional Copies of the Report	13
APPENDIX D Local Regional Office Listing	14

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2015

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 Greenlawn Water District, entitled Accounting Records. 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*

Introduction

Background

The Greenlawn Water District (District) is located within the Town of Huntington (Town) in Suffolk County. The District covers a 13-square-mile area and serves 42,000 residents. The District's 2014 revenues were approximately \$5 million, generated primarily from water use charges and real property taxes. The District's 2014 expenditures totaled approximately \$5.3 million.

An elected three-member Board of Commissioners (Board), composed of a Chairman, Secretary and Treasurer, governs the District. The Business Manager has the overall responsibility for maintaining the accounting records and preparing monthly and annual financial reports for the Board.

Objective

The objective of our audit was to examine the District's accounting records and reports for the period January 1, 2014 through February 28, 2015. Our audit addressed the following related questions:

- Did the Business Manager maintain complete and accurate accounting records and reports to allow the Board to adequately monitor the District's financial operations?

Scope and Methodology

We examined the District's accounting records and reports for the period January 1, 2014 through February 28, 2015.

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 B 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 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. District officials generally agreed with our recommendations and indicated they planned to take corrective action.

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.

Accounting Records

The Business Manager is responsible for maintaining accounting records and preparing accurate and timely financial reports. The Business Manager must regularly submit these reports to the Board so it can monitor and manage the District's financial operations. If the Business Manager assigns his financial duties to another individual, he should provide sufficient oversight to ensure that the records are reliable and up-to-date. Finally, the Board is responsible for annually auditing, or having an independent public accountant audit, the District's records and reports. The annual audit helps the Board fulfill its fiscal oversight responsibilities by helping to detect and correct any errors or irregularities in a timely manner.

The Business Manager did not maintain complete, accurate and up-to-date accounting records, provide the Board with adequate monthly financial reports or provide sufficient oversight of work performed by the District's clerks. In addition, while the Board engaged a certified public accountant (CPA) to annually audit the District's records, we question the CPA's independence to perform the audits because he also provided the District with numerous substantial adjusting journal entries that totaled nearly \$3.1 million, or 58 percent of the District's 2014 budget.¹ Had the Business Manager properly maintained the accounting records, the CPA would not have needed to prepare so many adjusting entries, which would have effectively reduced or eliminated our independence concern. As a result of these deficiencies, the Board's ability to effectively monitor District operations was significantly diminished.

Maintaining adequate accounting records requires recording all aspects of District operations, including water sales billed and collected, disbursements and transfers between accounts in a general ledger, in a timely manner. The Business Manager did not always record these transactions timely or reconcile the customer water accounts with the general ledger. Instead, the Business Manager relied on the CPA to prepare and record the adjusting journal entries after year-end. For example, at the end of 2014 the CPA prepared 60 adjusting journal entries to correct errors in the District's accounting and billing systems.

¹ In accordance with GAGAS, auditors should avoid situations that could lead reasonable and informed third parties to conclude that the auditors are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the audit and reporting on the work.

These adjusting entries affected every month's operations and ranged from as little as \$0.01 to as much as \$500,000. The Business Manager did not record these entries in the accounting records until April 2015, which resulted in the Board having inaccurate and unreliable accounting records and reports throughout the year. Furthermore, while the Business Manager's monthly reports to the Board included a cash disbursement report, they did not contain reconciled bank balances, budget status reports (budget vs. actual revenue and expenditure amounts) or any other information about the District's financial condition.

Cash and Bank Accounts – We reviewed the general fund checking account bank reconciliations for January 2014 through February 2015 and found that the account clerk did not properly reconcile the bank account balances with the general ledger balances. Our review of bank reconciliations for September 2014 through February 2015 showed that the reconciliations were not prepared until March 2015. As a result, the reconciled bank balances did not agree with the general ledger balances before the adjusting entries were made.

For example, the District's reconciled bank balances as of December 31, 2014 totaled approximately \$4.4 million but the general ledger cash balance² was approximately \$5.4 million. After adjusting journal entries of more than \$1 million were recorded in April 2015, the reconciled bank balance agreed with the cash balances reported in the District's financial statements. This difference occurred because the clerk responsible for preparing the reconciliations maintained a separate set of accounting records for the District. These records were completely separate from the general ledger and were not reviewed by any District official.

The clerk prepared bank reconciliations by adding the monthly cash receipts to the beginning balance maintained in these separate accounting records and subtracting the monthly cash disbursements to verify the ending bank balance. This reconciliation process did not include comparing the bank balances with the general ledger balances and determining the reasons for any differences. Consequently, even though the District received real property taxes totaling \$688,442 in May 2014, no one questioned that the Business Manager did not record this amount in the general ledger until June 2014. At that time, he erroneously recorded this revenue as a combined total of real property taxes and water rents instead of real property taxes, overstating water rents and giving the appearance that real property taxes had not been received from the Town.

² Before adjusting journal entries were recorded in May 2015

Furthermore, because District officials did not review bank reconciliations or a list of outstanding checks, officials were not aware that an employee did not cash 30 payroll checks totaling more than \$19,700 dated between August 27, 2010 and December 26, 2014. The employee cashed 28 of these checks totaling \$18,291 between January 1 and April 2015. The two oldest payroll checks totaling \$1,476 remained on the outstanding check list as of June 2015.

Billing – We reviewed customer accounts for December 2014 and compared this with the general ledger. Although all billing and collection activity was properly recorded in the billing software and individual customer accounts, the amounts billed were often posted to the accounts receivable control accounts in the wrong month, resulting in discrepancies between the customer accounts and the general ledger. To correct these errors, the CPA prepared 22 adjusting journal entries with a combined total of \$49,935, which were the result of a problem with the billing software that allowed the billing clerk to manually change the meter read dates.

These date changes and the resulting general ledger discrepancies went unnoticed because District officials did not reconcile the customer accounts to the general ledger and the Business Manager did not provide adequate oversight by reviewing the billing clerk's work. The Business Manager told us that he was aware of the billing clerk's actions but felt that changing these dates did not matter because these errors would be resolved at year-end.³

Due to the poor condition of District accounting records, the Board was not in a position to effectively monitor the District's financial operations. A lack of accurate and reliable records, combined with the Board and Business Manager placing undue reliance on the CPA, weakens controls and creates an increased risk that District funds could be misappropriated and improper transactions concealed.

Recommendations

The Business Manager should:

1. Maintain the District's accounting records in a timely, accurate and complete manner.
2. More effectively monitor the account clerks' duties to ensure that the accounting records are adequately maintained.

³ The District has since obtained a software patch to correct this problem with billing dates.

3. Ensure that proper bank reconciliations are prepared for each District bank account. The reconciled bank balances must be promptly compared with the recorded cash balances on a monthly basis and any differences identified should be promptly investigated and corrected.
4. Prepare and provide the Board with monthly financial reports that compare actual revenues and expenditures with the related budget and include reconciled cash balances.

The Board should:

5. Identify the monthly financial reports it requires and ensure the Business Manager provides them in a timely manner to help it manage District finances and evaluate financial condition.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



November 27, 2015

Mr. Ira McCracken, Chief Examiner
Division of Local Government and
School Accountability
Office of the State Comptroller
NYS Office Bldg, Room 3A10
Veterans Memorial Highway
Hauppague, NY 11788-5533

Re: Greenlawn Water District
Accounting Records
Report of Examination for the Period of January 1, 2014 – February 28, 2015
2015M-231

Dear Mr. McCracken:

The Board of Commissioners is in receipt of the draft Report of Examination entitled Accounting Records for the period of January 1, 2014 – February 28, 2015. We would like to thank the New York State Office of the Comptroller for the recent audit and for providing us with recommendations to improve the operations of the Greenlawn Water District. Below is a communication addressing each recommendation in the draft report. A more formal corrective action plan will be submitted by the Board within 90 days of when this report is finalized by the New York State Office of the Comptroller's office.

1. The Business Manager should:
 - a. Maintain the District's accounting records in a timely, accurate and complete manner;
 - b. Effectively monitor the accounts clerks' duties to ensure the accounting records are adequately maintained;

- c. Ensure that proper bank reconciliations are prepared for each District bank account. The reconciled bank balances must be promptly compared with the recorded cash balances on a monthly basis and any differences identified should be promptly investigated and corrected;
- d. Prepare and provide the Board with monthly financial reports that compare actual revenues and expenditures with the related budget and include reconciled cash balances.

The Board agrees with all of these recommendations and has engaged an outside third-party accounting firm to assist us in addressing the above recommendation relating to the Business Manager's abilities and responsibilities. In addition, the outside accounting firm will also be assisting us in evaluating our existing accounting processes in place and our internal controls within the finance department of the District.

- 2. The Board should identify the monthly financial reports it requires and ensure the Business Manager provides them in a timely manner to help it manage District finances and evaluate the financial condition.

The Board agrees with this recommendation and again has engaged an outside third party accounting firm to assist us in reviewing the current board reporting that exists. The Board will work with the accounting firm to develop and determine the appropriate level of monthly reporting the Board should receive going forward.

Additionally, we have enclosed for your review a letter from the district's CPA Mr. Alfred Hulse in which he addresses the question of independence concerning the annual financial review of district finances as outlined in the draft report.

We would like to thank the State Office of the Comptroller and their professional and courteous staff for their recommendations to improve the internal control over our accounting processes at the Greenlawn Water District.

Respectfully,

James M. Logan,
Chairman

HULSE CPA

Certified Public Accountant

1910 New York Avenue
Huntington Station, NY 11746-2998

631-423-3150

FAX 631-423-3154

E-MAIL: info@hulsecpa.com

WEB PAGE: www.hulsecpa.com

Alfred Arthur Hulse, C.P.A.

Alfred C. Hulse, 1932-1993

Seymour P. Glass, 1954-1995

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November 3, 2015

Mr. James Logan, Commissioner
Greenlawn Water District
45 Railroad Street
Greenlawn, NY 11740

Dear Mr. Logan:

In response to your telephone call, regarding the steps that I found necessary to correct the postings entered by the Business Manager:

1. I contacted my peer reviewer and he stated that I would maintain my "independence" as the auditor for the district provided:
 - a. The Business manager approved the adjusting journal entries and signed off thereon which was done.
 - b. The district posted the adjusting journal entries to the general ledger, which was done.
2. There were multiple adjusting journal entries required in order to reconcile with the corrected bank reconciliations prepared by the district.
3. In addition, I also reviewed the posting of the adjusting journal entries and prepared the necessary correction for the district to post.

I confirmed that the district's general ledger corrected closing balances were in agreement with my certified audit report and "aud" submitted to the Town of Huntington.

In closing, I trust the above information answers the questions concerning my maintaining my "independence" as the district auditor.

Please contact me if you require any additional information.

Very truly yours,

Hulse CPA

Alfred Arthur Hulse, CPA

AAH:aa

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objectives and obtain valid evidence, we performed the following procedures:

- We interviewed District officials regarding policies and procedures for recording, reconciling and reviewing the District's accounting records.
- We compared accounting records to the audited financial statements issued during the audit period to determine differences and if the CPA's adjustments were recorded in the accounting records.
- We examined the bank statements and reconciliations performed for each month of our audit period. We compared the bank reconciliations with the general ledger to determine whether the reconciliations were properly performed.
- We reviewed adjusting journal entries made to the general ledger and customer accounts to determine whether the adjustments were for proper purposes.
- We compared the general ledger with the subsidiary journals, including those for cash receipts, cash disbursements and customer accounts, to determine whether the accounting records were complete and accurate.
- We reviewed customer accounts for December 2014, comparing them to the billing register, meter books and the general ledger to ensure the accounts had been accurately billed and recorded. We arbitrarily selected this month and had no expectation that more or fewer errors would occur in the sample month than in any other month.
- We observed the billing clerk as she prepared customer bills and recorded entries in the billing software.

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 C

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