



# Fishers Island Ferry District Financial Operations

## Report of Examination

Period Covered:

January 1, 2014 — April 30, 2015

2016M-156



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

August 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 Fishers Island Ferry District, entitled Financial Operations. 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

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### EXECUTIVE SUMMARY

The Fishers Island Ferry District (District) is a component unit of the Town of Southold (Town) in Suffolk County. The District was created in 1947 by an act of the New York State Legislature, known as the Ferry District Enabling Act. The District is governed by an elected Board of Commissioners (Board), which is composed of five members.

Although the District's revenue and expenditures are kept separate from the Town's general fund, the Town Supervisor is the District's fiscal officer and, along with the Town Board, reviews, approves and executes all of the District's financial obligations, including payroll. The District Manager, who is appointed by the Board, is the District's administrative head and is responsible for the District's day-to-day operation and maintenance under the Board's direction.

The District's expenditures in 2014 were \$3.5 million and 2015 budgeted appropriations were approximately \$4.5 million, funded primarily by user fees and property management fees. The District's revenues in 2014 were \$3.6 million.

#### **Scope and Objectives**

The objective of our audit was to review selected financial operations for the period January 1, 2014 through April 30, 2015. We expanded our scope through July 22, 2015 to examine the District's ticket book inventory. Our audit addressed the following related questions:

- Did District officials ensure that employee time and leave records were accurate?
- Did District officials ensure that cash receipts were collected, recorded and deposited accurately?
- Did District officials ensure that goods and services were procured in compliance with the Board-adopted purchasing policy?

#### **Audit Results**

The District's policies and procedures for timekeeping and leave accruals need to be improved. Time and attendance records are not submitted by all employees. While the District has an electronic time clock system, not all District employees are required to use it. Five employees have access to create and change time records and all five use the same username and password. Neither employees nor managers are required to sign and certify that the hours reported on the time cards are accurate. In addition, employee leave time records are not sufficient, and independent reviews of leave accrual

records and balances are not done. District officials also do not ensure that the accrual and use of leave time is in compliance with the collective bargaining agreement and employee handbook.

As a result of these weaknesses, the District paid an employee \$50,477 more than he was entitled to for unused leave accruals at the time of his retirement. We also found errors in leave accrual records for five employees resulting in one employee's leave accrual balance being overstated by 58 days, the equivalent of \$19,815 in compensation. Four other employees' balances were understated by 42 days, the equivalent of \$7,580 in compensation. For two of four biweekly payrolls, hours worked and salary paid were inaccurate, resulting in an underpayment to three employees totaling \$1,226 and an overpayment of \$55 to two employees.

The Board did not establish and adopt policies and procedures over cash receipts to ensure all cash receipts were properly collected, recorded and deposited. The Fishers Island freight agent's duties related to cash receipts are not adequately segregated, collections received are not reconciled to collections recorded, and duplicate pre-numbered receipts are not issued for cash collected. Records indicate that \$1,636 in fees were not invoiced or collected, \$300 of cash receipts were collected but never recorded in the accounting software and another \$300 was collected and never deposited in the bank account. In addition, because the Assistant Manager of Business Operations does not maintain a perpetual inventory of ferry ticket books, at least seven ticket books worth \$1,575 are unaccounted for. Because the Assistant Manager of Business Operations does not impose late fees for property that the District rents, the District has not collected more than \$20,000 it is entitled to based on lease agreement provisions.

Finally, District officials did not ensure that goods and services were procured in compliance with statutory bidding requirements and the District's procurement policy. We identified \$617,037 in purchases that were not properly bid as required by law and approximately \$38,600 in purchases that were made without obtaining quotes as required by District policy. Although District officials use credit cards when purchasing goods and services, the Board has not adopted and implemented a credit card policy. We identified an additional \$17,095 in purchases on the District credit card that were made without obtaining quotes. Because of these deficiencies, the Board does not have adequate assurance that goods and services are acquired at the best price.

### **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. District officials generally agreed with our findings and recommendations and indicated they planned to initiate corrective action.

# Introduction

## Background

The Fishers Island Ferry District (District) is a component unit of the Town of Southold (Town) in Suffolk County. The District was created in 1947 by an act of the New York State Legislature, known as the Ferry District Enabling Act. The District is authorized to levy and collect taxes in addition to collecting fares, in order to offset its expenditures. The tax levy is assigned to the property owners of Fishers Island.

The District is governed by an elected Board of Commissioners (Board), which includes five members. The District's revenues and expenditures are kept separate from the Town's general fund. The Town Supervisor is the District's fiscal officer and, along with the Town Board, reviews, approves and executes all of the District's financial obligations, including payroll. The District Manager is the District's administrative head and is responsible for the District's day-to-day operation and maintenance under the Board's direction.

The District's primary mission is to provide safe, reliable, convenient and cost-effective public marine transportation services from Fishers Island, New York to the Connecticut mainland consistent with its mandate set forth in the Enabling Act. The District's secondary mission is to manage certain real property owned by the Town and located on Fishers Island. The District operates two ferries that travel between a New London, Connecticut dock and a Fishers Island, New York dock for residents, freight, commercial operations and chartered boats. Additionally, the District manages the leases of Town property on Fishers Island.

The District's expenditures in 2014 were \$3.5 million and 2015 budgeted appropriations were approximately \$4.5 million, funded primarily by user fees, property taxes and property management fees. The District's revenues in 2014 were \$3.6 million. Ferry operations generated \$2.65 million and property management generated \$77,517 of the 2014 revenues.<sup>1</sup> The District employs approximately 77 full-time, part-time and seasonal employees. Salaries and benefits for employees are outlined in a collective bargaining agreement (CBA) and an employee handbook.

In July 2014, the District Manager resigned and the Board chose not to replace him. The District Manager's duties have been assigned to both the Assistant Manager of Business Operations and the Assistant

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<sup>1</sup> Other 2014 revenues not discussed in the report included taxes (\$773,000), charter fees (\$36,000), United States mail fees (\$28,000) and grants (\$20,000).

Manager of Marine Operations. The Assistant Manager of Marine Operations is responsible for oversight of staff and activities at the New London dock including ensuring that time cards are accurate and that cash receipts are properly collected. The Assistant Manager of Business Operations is responsible for overseeing the daily operations at the Fishers Island location including ensuring that time and attendance records and bi-weekly payrolls are accurate and that cash receipts are properly collected, recorded and deposited. The freight agent on Fishers Island maintains time and leave records and is responsible for collecting, recording and reporting cash receipts in the District's financial records. Both Assistant Managers are permitted to purchase goods and services and are responsible for ensuring compliance with all purchasing guidelines including obtaining the required number of quotes.

## **Objectives**

The objective of our audit was to assess selected financial operations. Our audit addressed the following related questions:

- Did District officials ensure that employee time and leave records were accurate?
- Did District officials ensure that cash receipts were collected, recorded and deposited accurately?
- Did District officials ensure that goods and services were procured in compliance with the Board-adopted purchasing policy?

## **Scope and Methodology**

We examined selected District financial operations for the period January 1, 2014 through April 30, 2015. We expanded our scope through July 22, 2015 to examine the District's ticket book inventory because we considered it necessary to meet our audit objective.

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 size of the relevant population 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 findings and recommendations and indicated they planned to initiate 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 District's Business Office.



## Payroll

Payroll policies, procedures and practices provide guidance to employees when preparing and approving time records. Management oversight is essential to ensure that policies and procedures are adhered to. Important components of payroll processing include using an adequate timekeeping system to ensure that transactions are authorized, recorded and reported properly ensuring that employees are accurately paid for time worked and ensuring that work performed is routinely monitored and reviewed. In addition, the ability to create or change time records must be limited to only the highest level managers or changes should be routinely monitored because these records are used to determine an employee's regular and overtime pay and accumulated leave balances.

Leave accruals represent paid time off earned by employees. The accumulation and use of leave time is generally addressed in CBAs, individual employment contracts and employee benefit schedules, which should clearly stipulate each employee's entitlement to leave benefits. Sufficient records should be kept for each employee's accrued leave time and usage to ensure employees only accrue, use and receive pay for time to which they are entitled. Periodic independent reviews of accrual records and balances provide additional assurance that the accrual and use of leave time is accurate and in accordance with applicable guidelines.

During our audit period the District had 77 employees with salaries and wages totaling approximately \$1.7 million. Five employees worked in Fishers Island and 72 employees worked in New London. The District's policies and procedures for timekeeping and leave accruals are not adequate to ensure time and leave records are accurate. The District paid an employee \$50,477 more than he was entitled to for unused leave accruals at the time of his retirement. Time and attendance records are not submitted by all employees. In addition, leave accrual records for five employees included numerous errors. For example, one employee's accrual balance was overstated by 58 days, equivalent to \$19,815 in compensation, and four employees' balances were understated by 42 days, equivalent to \$7,580 in compensation. Lastly, for two of four biweekly payrolls, payroll hours worked and salaries paid were inaccurate, resulting in an underpayment to three employees totaling \$1,226 and minor overpayments to two employees totaling \$55.

## Separation Payment

A CBA and a Board-approved employee handbook<sup>2</sup> provide guidelines for payment of unused vacation and sick leave accruals upon an employee's separation from District service. District officials must sufficiently review computed separation payments and ensure they are properly calculated and adequately supported. Further, leave accrual records supporting such payments should correspond to the CBA or employee handbook provisions governing the employee's benefits. The Board must approve any separation terms that differ from those terms outlined in the CBA or employee handbook, prior to payments being issued.

The employee handbook states that full-time employees hired before May 1, 2009 may accumulate up to 280 days accrued sick leave time. Upon retirement, a full-time employee is entitled to payment for up to 40 days of unused sick leave. For days accumulated over 40, an additional payment will be made at the rate of one day for every three days accumulated, but in no event will the total payment exceed 120 days. In addition, employees are allowed to carry over up to eight vacation days into the next year on their anniversary date. Any accumulated, unused vacation days are paid at termination.

The Marine Operations Supervisor retired on April 2, 2015 and received payment for 280<sup>3</sup> unused sick days and 33 unused vacation days totaling \$79,442. District officials could not provide time records or leave accrual usage records for this employee for 2014 or 2015. In addition, the leave accrual records provided by the District were not consistent as the year-end balances did not match the beginning balance of the next year. District officials told us that this employee was on "gardening leave"<sup>4</sup> for 15 months. He was not required to report to work from January 2014 through his retirement date in April 2015. He was paid his full salary and benefits for this time period and did not charge any of his leave accruals. District officials could not provide any evidence of an agreement or Board resolution authorizing this arrangement.

A Board resolution dated January 2014 indicated that the Board approved the District Manager's request that the duties and responsibilities of the Marine Operations Supervisor be temporarily suspended and that the Assistant Manager of Marine Operations assume all day-to-day duties and responsibilities. The resolution instructed the District Manager and legal counsel to prepare

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<sup>2</sup> Management positions are covered under the employee handbook, not the CBA.

<sup>3</sup> The employee was paid for 280 days, 40 at full pay and 240 at the rate of three days for one (240/3=80).

<sup>4</sup> The practice where an employee leaving a job – having resigned or otherwise had their employment terminated – is instructed to stay away from work during the notice period, while still remaining on the payroll.

documentation to support this action. A Commissioner who was present during the 2014 discussions told us that the intent was to have this employee use leave accruals while remaining on the payroll, so there would be little or no payout necessary upon retirement. Instead, the District continued to pay this employee's salary and then also paid him at separation for all accrued leave time. The Commissioner told us that this was an oversight on the Board's part. Had the employee been required to use leave accruals during this period, the District would have made a separation payment of \$28,966 for a balance of 56 unused accrued sick leave and vacation days, or \$50,477 less than what was actually paid out.

Because the District's procedures do not require a sufficient review of computed separation payments, the Board did not ensure that this separation payment was properly calculated and adequately supported. As a result, the District paid an employee \$50,477 more than he was entitled.

## **Leave Accruals**

Procedures should be designed to ensure that leave accruals are earned in accordance with District policies, CBAs, employment agreements or Board resolutions and that leave used is properly deducted from employee leave accrual balances. Proper accounting for employee leave accruals requires the periodic verification of records for leave accruals earned and used. Charges and resulting balances entered on leave accrual records should be routinely reviewed and communicated to each employee to help ensure accuracy.

The District has 23 full-time employees who are eligible to earn leave accruals. Employees earn between five and 25 days of vacation each year based on years of service. If not used, a maximum of eight vacation days can be carried forward to the subsequent year. Employees also earn 12 or 15 days of sick leave each year based on the date hired and, if not used, a maximum of 280 days can be carried forward each year. All full-time employees earn three personal days each year which cannot be carried forward. Full-time employees have the option of requesting compensatory time instead of holiday pay for the 10 holidays observed by the District. The CBA and employee handbook do not address the use or carryover of compensatory time.

District officials do not have adequate procedures in place to ensure that employee leave accruals are properly earned, used and accounted for. The freight agent on Fishers Island is responsible for recording leave accruals earned and used, including her own, with little oversight. At the beginning of each year, the Assistant Manager of Business Operations reviews the leave accrual balances to ensure no more than eight days are carried forward for vacation time and verifies the new accruals. However, this review is not adequate.

Leave balances maintained by the freight agent are not reconciled to the leave slips, time sheets or electronic timekeeping entries. The District uses an electronic time clock, which is located in New London and has the capability of tracking leave time. However, no one at the District knows how to use this feature so they do not take advantage of this technology. In addition, employees in New London do not have access to the timekeeping system to enter leave accruals used and employees on Fishers Island do not account for the use of accruals on their time cards.

Employees must submit leave request forms to the freight agent two weeks in advance. The Assistant Manager of Marine Operations approves leave requests for New London employees and the Assistant Manager of Business Operations approves leave requests for Fishers Island employees. The Board approves each Assistant Managers' leave requests. However, we found that leave request forms did not include the date of the request or any indication of approval. Leave request slips are submitted to the freight agent who is responsible for entering the information in the timekeeping system and deducting the use of time from the employees' balances. The freight agent maintains two sets of records for employee leave balances, which are a manual list of the date and type of leave used by each employee and a computerized spreadsheet that contains the beginning balance, new accruals for the year and total days used during that year. At the beginning of each year she carries forward leave accrual balances for each employee and adds new accruals. These balances are sent to New London to be posted on a bulletin board for review by employees. However, the balances are not posted for review by Fishers Island employees. We found that accrual balances were not consistently carried forward from one year to the next and were not updated on a timely basis.

We selected five<sup>5</sup> employees leave accrual records to determine whether leave used, earned and carried over from one year to the next was accurately recorded and in accordance with the CBA and Board policy. We reviewed leave time used as shown on the freight agent's manual record and compared it to timesheet records and leave request forms and identified the following issues:

- There were 66 leave request forms representing 85 used accrued days that were not approved by either Assistant Manager.
- Three employees had leave slip requests in their personnel file, but the leave time was never recorded in the manual record book or spreadsheet. This resulted in the use of 7.5 days, worth \$1,758, which was not deducted from the employees' leave accrual balances.

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<sup>5</sup> Please refer to Appendix B for further explanation of our selection process.

- There were 28 instances where records and leave request forms did not reconcile. This includes six instances when leave accrual use totaling four and a half days was noted in the manual record book, but a leave request form was not available. The freight agent told us she could not locate these forms.

Further, we calculated the 2014 year-end leave accrual balances and the 2015 leave accrual balance to date for the five employees and compared our calculations to the District's record. We identified errors in both 2014 and 2015.

Errors for 2014 included:

- All five employees had incorrect year-end sick leave balances. Three employees had balances overstated by 24 days, equivalent to \$7,762 in compensation, and two employees' balances were understated by 38.5 days, equivalent to \$7,968 in compensation.
- Four of the five employees had incorrect year-end vacation accrual balances. Two were overstated by 11 days, equivalent to \$2,277 in compensation, and two were understated by five days, equivalent to \$1,708 in compensation.
- Two employees' personal day balances were overstated by two days, resulting in the District paying \$577 to which the employees were not entitled.
- Two employees' compensatory days earned were incorrect. One employee's days were overstated by eight days, resulting in the District paying the employee \$2,733 to which he was not entitled. The other employee's days were understated by one day, resulting in the employee not receiving \$342 of compensation he was entitled to.

Errors for 2015 included:

- All five employees' sick leave balances carried forward were inaccurate. One was overstated by 58 days, equivalent to \$19,815 in compensation, and four were understated by a total of 54 days, equivalent to \$10,106 in compensation.
- Four of the five employees' vacation leave balances were carried forward incorrectly. Three were overstated by a total of 14 days, equivalent to \$3,083 in compensation, and one was understated by eight days, equivalent to \$2,733 in

compensation. Further, the District carried over 10 vacation days for two employees, two more than the maximum permitted per the contract.

- Three of the four employees had incorrect compensatory time balances carried forward. One was overstated by eight days, equivalent to \$2,733 in compensation, and two were understated by two days, equivalent to \$577 in compensation.

The lack of adequate procedures and oversight of the accrual and use of leave benefits resulted in employees using leave time they were not entitled to, balances being carried over from one year to the next in excess of what is permitted in the CBA and District policy and incorrect leave accrual balances. These errors resulted in four employees' 2015 balances being overstated by a total of 80 days, equivalent to \$25,631 in compensation, and five employees' 2015 balances being understated by a total 64 days, equivalent to \$13,416 in compensation.

## **Time Records**

Accounting for employees' time worked requires an adequate timekeeping system to ensure that transactions are authorized, recorded and reported properly; employees are accurately paid for time worked; and that work performed is routinely monitored and reviewed. Each employee's time record (time sheet or timecard) should be signed by the employee and reviewed and signed by the employee's supervisor. In addition, the ability to create or change time records must be controlled and monitored because these records are used to determine an employee's regular and overtime pay and accumulated leave accrual balances.

The District did not implement adequate procedures to ensure hours worked were accurately reported. Non-management employees based in New London use an electronic timekeeping system. These employees sign in and out using a time clock and a unique employee number. The employees do not have access to the system to record leave time or make any changes. With the exception of the Assistant Manager of Business Operations, the four employees located on Fishers Island use manual timecards. Management positions are salaried employees and are not required to maintain any documentation to support time worked. The freight agent on Fishers Island maintains and processes the time sheets and timecards for all employees and has access to the electronic timekeeping system to add, delete and change information. Four other employees, including the two Assistant Managers, have access to the timekeeping system and all five use the same username and password to access the system.

At the end of the payroll period, the freight agent prints out copies of the electronic time sheets for the New London employees and posts

them on the bulletin board for employees to review for accuracy. Employees and supervisors are not required to sign off on the time sheets. Employees make notations on the copy of any leave time not captured or discrepancies. If employees are not scheduled to work during this review time, they cannot view their time records for accuracy. Corrected time sheets are sent back to the freight agent who makes the necessary changes in the system. Employees on Fishers Island sign and submit their manual time cards to the freight agent who manually enters the information into the timekeeping system. Timecards are not approved by a supervisor. Management positions are salaried and are paid based on a 40-hour work week.

On the Monday following the end of the pay period, once all the hours have been input into the system, the freight agent prints out time records for all employees and inputs the information into another spreadsheet to be submitted to the Town for processing. This spreadsheet is given to the Assistant Manager of Business Operations for his approval, which is evidenced by his initials on the document, and, once approved, is sent to the Town for payroll to be processed. Once payroll has been processed by the Town, the payroll checks are sent to the District for distribution, along with a copy of the payroll register. The freight agent enters the total dollar amount of the payroll into the District's financial software. Employee hours are not reconciled to the payroll register prepared by the Town.

We reviewed five employees' time records for four biweekly time periods with gross salaries totaling \$43,317 and found errors in two of the four biweekly payrolls.

- Hours were reported incorrectly for two of the four payrolls resulting in underpayments to two employees totaling \$202 and an overpayment to two employees totaling \$55.
- The salary rate was incorrect for an employee in one of the four payrolls resulting in an employee being underpaid \$1,024.
- Three of the four payrolls had no evidence of being reviewed and approved by the Assistant Manager of Business Operations prior to being submitted and paid by the Town.
- The freight agent, responsible for processing payroll and maintaining all leave accrual records, did not submit any timecards for the payrolls reviewed, which equated to compensation totaling \$5,277.

- Time sheets for three employees were not signed by the employee or a supervisor.
- One employee signed three of four time sheets, but none were signed by a supervisor.

The lack of adequate oversight and procedures for accounting for time worked resulted in errors in employees pay. In addition, by not requiring all employees to account for time worked, employees could be paid for time not worked. By not signing the time sheets, supervisors and employees are not certifying that reported time worked is accurate.

## Recommendations

The Board should:

1. Direct the District's attorney to review any overpayments and take action to recover those funds and reimburse identified underpayments, as appropriate.
2. Establish policies to ensure all District employees maintain documentation to account for time worked.
3. Establish written procedures to address maintaining accurate leave accrual records and ensure that accurate records are maintained, monitored and periodically reconciled, in accordance with the CBA and District policy.
4. Implement uniform timekeeping procedures that include individual employee time recording forms. The forms should provide detail about the hours employees actually work and leave accruals used and should include employee signatures and the signatures of their supervisors.

The Assistant Manager of Business Operations should:

5. Ensure separation payments are made according to the terms of the CBA or District policy. Any changes to these terms should be approved by the Board.
6. Monitor and review employee leave accrual balances to ensure accurate records.
7. Investigate and correct the leave accrual balance discrepancies identified in this report. Seek recovery, as appropriate, of compensation paid to employees for leave time to which they were not entitled.



8. Consider using the timekeeping software to maintain the leave accrual balances to ensure more accurate records.
9. Limit the ability to change records in the timekeeping software application, regularly review change reports, investigate any changes made to time records and ensure all users have a unique user name and password.
10. Do a proper and thorough review of biweekly hours worked before submitting the payroll to the Town. The review should include ensuring all employees submit required time cards and should be documented.
11. Investigate and correct the payroll discrepancies identified in this report. Seek recovery, as appropriate, of compensation paid to employees to which they were not entitled.

## Cash Receipts

The Board and District management are responsible for properly safeguarding District assets, including cash receipts. Policies and procedures help to ensure that all cash receipts are properly collected, recorded and deposited. District management must adequately segregate employees' financial duties so that no one individual controls all aspects of a financial transaction. When it is not practical to segregate duties because of limited resources, District officials should routinely review and monitor the work of employees with incompatible financial duties. All cash collected should be promptly reconciled and recorded and be deposited timely and intact.<sup>6</sup> Employees should issue pre-numbered receipts for all cash collected. Receipts should be retained along with other adequate supporting documentation to ensure transactions can be traced from the point of collection to the accounting records.

The Assistant Manager of Business Operations is responsible for maintaining an accurate accounting of all cash received and deposited. He is also responsible for maintaining a perpetual inventory of ticket books as well as managing, maintaining and collecting rents for the 20<sup>7</sup> properties owned by the Town. The duties of accounting for cash and rents received and deposited have been delegated to the freight agent who works on Fishers Island. The District's revenues for the audit period were approximately \$2.7 million from ticketing and reservations, \$330,000 from freight and \$113,000 from rent.

The Board has not established and adopted policies and procedures for cash receipts, resulting in cash receipts that were not accurately collected, recorded and deposited. The Fishers Island freight agent's duties related to cash receipts are not adequately segregated because she performs the incompatible duties of collecting cash, recording cash and preparing bank deposits. District officials have not mitigated this risk by ensuring collections received are reconciled to collections recorded and they do not provide any additional oversight or routine review of her work. This lack of oversight resulted in accounting records that do not reconcile to marine operation records, late deposits and numerous errors and discrepancies that remain unresolved.

District records indicate that \$1,636 in fees were not invoiced or collected, \$300 of cash receipts were collected but never recorded in

<sup>6</sup> Intact means in the same order and form (i.e., cash or check) in which they were received.

<sup>7</sup> One property was not rented during the audit period. Three properties are not charged monthly rent. These properties are used by the New York State Police, the Town Justice and the Fishers Island utility operations.

the accounting software and another \$300 was collected and never deposited in the bank account. Also, because the Assistant Manager of Business Operations does not maintain a perpetual inventory of ticket books, at least seven ticket books with a total of \$1,575 in tickets are unaccounted for. Further, \$1,802 in receipts are recorded as being collected in the form of cash but a check was deposited in the bank account, indicating that these payments were not deposited intact. Finally, because the Assistant Manager of Business Operations does not impose late fees to lessees based on the lease agreements, the District has not collected more than \$20,000 to which it is entitled.

### **Ticketing and Reservations**

Reservations for passengers and cars can be made online, at the New London Ferry terminal's ticket counter or at ticket kiosks<sup>8</sup> located at the New London and Fishers Island terminals. Reservations made online and through the kiosk can only be paid by credit card, and individuals must personally appear at the ticket counter in New London to obtain an actual ticket to board the ferry. Tickets and reservations made at the ticket counter can be paid by cash, check or credit card. Seven house accounts have use of the ferries at no charge. These accounts are for members of the clergy, District employees and the New York State Police. Each of these entities has a unique account number, and tickets are accounted for by charging them to the corresponding account number.

Commercial reservations must be made with a reservation agent at the terminal or via telephone and can be paid for by cash, check or credit card. Four<sup>9</sup> commercial vendors can charge reservations to an account and are billed by the District at a later date. Commercial reservations charged to an account are invoiced when the reservation is used.

All tickets are sold as round trips and physical tickets are collected as passengers and vehicles board the ferry in New London. A ticket is not needed to board the return trip ferry from Fishers Island. The District uses a computerized system for issuing tickets and collecting user fees for ticketing and reservations. However, a separate system is used for accounting purposes. The District has no procedures in place to reconcile these two sets of records.

At the end of their shift, each cashier prints two copies of a summary activity report and reconciles their cash drawer. One copy of the report is kept in the safe with the money to be deposited, and the second copy is sent to the Fishers Island freight agent with credit card and charge receipts. The morning shift ticket agent in New London is

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<sup>8</sup> Kiosks were not in service during our audit period.

<sup>9</sup> Commercial charge accounts include the Town, Fishers Island Waste Management District, Fishers Island School District and a private paving company.

responsible for preparing the daily deposit. The daily sales reports for each location are sent to the Fishers Island freight agent who records the daily cash and credit card deposits in the District's accounting software. Tickets and reservations that have been charged to an account<sup>10</sup> are accounted for when they are used.

The Fishers Island freight agent prints out a daily report from the ticketing software for reservations made on the website and records this in the accounting software as well. Daily deposits are also recorded in a separate manual spreadsheet which is sent to the Town every 10 days. The deposits recorded by the Fishers Island freight agent are not reconciled to the ticketing software or to the reports forwarded to the Town. The Fishers Island freight agent is also responsible for recording charge accounts in the accounting software when the reservations are used and collecting, recording and preparing deposits when payments are made. Duplicate pre-numbered receipts are not issued for payments on account.

We reviewed 16 days of ticketing and reservation sales<sup>11</sup> with collections totaling \$102,144.<sup>12</sup> The ticketing software and accounting software reconciled for two of the 16 days. We found the following discrepancies:

- Cash, check and credit card sales identified in the ticketing software totaled \$91,049. However, payments collected totaled \$91,141, \$92 more than the sales. This was the result of two credit card payments for tickets identified in the software as “no charge” transactions. Further, the accounting software shows deposits of only \$90,841, \$208 less than sales and \$300 less than collections. The Assistant Manager of Business Operations could not explain these discrepancies.
- Cash collected as identified in the ticketing software did not reconcile to the cash deposited into the bank account for 10 of the 16 days. The ticketing software identified a total of \$8,852 collected in cash on the dates tested. However, deposits of cash for these collection dates was only \$6,941.
  - o Nine of the 10 days included collections totaling \$1,772 that were recorded in the ticketing software as collected in cash. However, deposit tickets confirm a check was deposited into the bank account indicating

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<sup>10</sup> House accounts are not charged ferry fees and are, therefore, not recorded.

<sup>11</sup> Please refer to Appendix B for further explanation of our sampling

<sup>12</sup> \$8,852 payments were made by cash, \$172 by check, \$82,117 by credit card, and \$11,003 on account

that cash was not deposited intact. For example, on October 20, 2014 the summary activity report identifies 20 cash payments totaling \$571 collected at the New London ticket counter. However, the deposit ticket for this date confirms the deposit included \$477 in cash and two checks totaling \$94. We obtained a deposit composition and confirmed that the original payment was by check and the form of payment was entered in the ticketing software incorrectly. The Assistant Manager of Business Operations told us he did not think it was important to ensure that ticket agents were depositing receipts in the same form as collected.

- o The total amount collected in cash and checks for the 16 dates (\$9,024) did not reconcile to total amount deposited in cash and checks (\$8,885). We identified six days where the deposits were either less than collections for the day or included more than collected for the day. Three deposits were short a total of \$144 and three deposits were over a total of \$5, a net of \$139. The Assistant Managers could not explain this discrepancy.
- Four of the 16 days had collections totaling \$1,442 that were deposited between five and nine days after receipt. For example, on April 8, 2014 the District collected a \$1,210 check from a vendor that was not deposited until April 17, 2014, nine days later. The Assistant Manager of Business Operations told us that the check was put in the safe but overlooked until the morning of April 11, 2014. He could not explain the additional six-day delay.
- Seven of the 16 days included transactions totaling \$848 that were identified in the ticketing software as charge account transactions. However, these transactions were not charged to a house account or invoiced. For example, on January 2, 2014, 18 transactions, each for \$392, were identified as a charge account. However, only 17 of these transactions were charged to a house account, invoiced and paid; \$392 remains unpaid. The Assistant Manager of Business Operations could not explain this discrepancy.
- Six of the 16 days included transactions totaling \$165 that were identified in the ticketing software as no charge transactions. For example, on August 16, 2014 there were three transactions totaling \$15 for an “off-island reservation,”

each identified as a “no charge.” These transactions were not paid for and were not charged to a house account. The Assistant Manager of Business Operations could not explain this discrepancy stating that all transactions should be either paid for or charged to one of the seven house accounts.

- Total amount identified as collected in credit card payments for the 16 days (\$82,117) did not reconcile to total amount deposited for credit card collections (\$81,956). Two dates had deposits that were less than collections for that day. For example, on June 12, 2014 electronic records identify that the District collected \$12,037. However, bank records confirm only \$11,926 was deposited, \$111 less than the collections. The Assistant Managers could not explain this discrepancy.

## **Ticket Books**

The District sells ticket books at a discounted price. Books are for 10 round-trip tickets and must be purchased in person at either the New London or Fishers Island terminal.<sup>13</sup> The Assistant Manager of Business Operations is responsible for ordering, maintaining the inventory and dispensing ticket books to the terminals when inventory is low at either location.

The District’s records are not adequate to determine if all ticket books are accounted for during the audit period. The Assistant Manager of Business Operations could not provide a current inventory accounting for books on hand for the audit period. Although he did provide an inventory list upon request, it was not dated and he told us that it had been done a few years prior. He told us that when he issues ticket books to the terminals, he simply writes down the numbers issued on scraps of paper. However, he does not keep a written record of the number of ticket books, the type of ticket books or the sequence number of the ticket books issued.

In addition, ticket books are not issued in numerical order. When we reviewed the records provided, the ticket numbers were not in sequence, the date was not always available and there was no indication of the remaining tickets on hand. On June 15, 2015, the District received a delivery of 1,000 peak adult non-resident ticket books. We performed our own inventory of this shipment and determined that seven ticket books worth \$1,575<sup>14</sup> are unaccounted for.

## **Freight**

The majority of freight is inbound at the New London terminal and transported to Fishers Island to customers who maintain District

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<sup>13</sup> Ticket books are available for peak and off-peak adult resident and non-resident, auto resident and non-resident, and senior/child resident and non-resident.

<sup>14</sup> Peak adult non-resident ticket books contain 10 round-trip tickets and are sold for \$225 per book.

accounts. Freight runs six days a week, Monday through Saturday. Packages related to District business, as well as medical supplies, are transported at no charge. All other freight is transported at rates based on an approved fee schedule. Incoming packages with preprinted tracking labels are scanned into the tracking software with handheld computers used by the freight agents in both the New London and Fishers Island freight buildings. Packages that are not labeled are manually entered into the handheld computer by the freight agent and a label is generated with a tracking number.

Once the packages are scanned and labeled, an invoice is created in the accounting software. The accounting software automatically generates sequentially numbered invoices which cannot be changed. After invoice numbers are created, a freight manifest<sup>15</sup> is printed and the packages are transported on the ferry. Upon pickup, the customer signs for the package in the tracking software and the Fishers Island freight agent changes the status in the accounting software to “picked up.”

Generally, payments for freight transport are collected by the freight agent at the Fishers Island freight terminal. Customers without an account must pay at departure if the package is traveling from Fishers Island to New London, or upon arrival for shipments traveling from New London to Fishers Island. Packages are not released until payment is made. For customers with a house charge account, the freight transport fees are charged to their account, and the Fishers Island freight agent emails them a monthly statement.

Freight customers with accounts may pay their fees in person at the Fishers Island freight office, by mail or they can elect to have a credit card number on file with the District. The Fishers Island freight agent is responsible for recording all freight account activity in the accounting software and collecting, recording and preparing deposits when payments are made. The payments received, recorded and deposited by the Fishers Island freight agent are not reconciled to the tracking software.

The District uses an electronic tracking software that allows them to track the receipt and delivery of packages. A different computerized software is used for accounting purposes to bill customers and account for collections. The District has no procedures in place to reconcile these two sets of records. We identified multiple discrepancies between the two records. In addition, a cash receipts log is not maintained and duplicate pre-numbered receipts are not issued for freight payments. Customers simply receive the package in exchange for the payment.

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<sup>15</sup> A shipping document that lists all freight or cargo items for a specific voyage.

We reviewed one week of freight transactions from April 2015 which included 660 tracking numbers in the tracking software. The accounting software for the same week included 314 invoices totaling \$7,489 and 41 payments totaling \$28,950. Freight tracking and invoicing are not accurately recorded and cash receipts are not accurately collected, recorded and deposited.

- Twenty-five invoices totaling \$1,170 remain unpaid in August 2015, over four months after the freight was transported. The Assistant Manager of Business Operations stated that collections during the audit period were not a priority.
- Twenty-six of the 41 payments totaling \$14,959 were deposited more than four days after collection. Five of the 26 payments totaling \$4,486 were deposited more than 10 days after collection. For example, on April 21, 2015 the District transported a large pallet of supplies from New London to Fishers Island for a business with a house account. The vendor paid \$1,920 on May 18, 2015. However, the check was not deposited by the District until May 29, 2015, 11 days after collection. The Assistant Manager of Business Operations could not explain why deposits were made so much later than the collection date.
- Thirty of the 660 tracking numbers did not reconcile to the accounting software, either the quantity did not agree or the description did not agree. For example, on April 20, 2014 a package was entered into the tracking software in New London as a crate being shipped to a plumber in Fishers Island with a \$4 fee required for transport. However, upon arrival at the Fishers Island freight terminal, the Fishers Island freight agent changed the invoice to identify that a pallet, rather than a crate, was transported requiring a fee of \$60, a difference of \$56. The Assistant Manager of Business Operations explained that these changes are needed because New London freight agents are not properly trained to correctly identify the difference between a crate and a pallet.
- Seventy of the 660 tracking numbers generated for freight were never invoiced, costing the District \$605. For example, on April 24, 2015 two large pallets shipped by a hardware store were entered into the tracking software for transport from New London to an individual at Fishers Island. This freight was never invoiced to the individual and resulted in \$120 in uncollected freight fees for the District. The Assistant Manager of Business Operations could not explain why these freight packages were never invoiced.



- One of the 41 payments totaling \$30 was recorded in the accounting software as being collected in cash. However, the deposit ticket confirmed a check was deposited into the bank account, indicating that the receipt was not deposited intact. We obtained a deposit composition and confirmed that the original payment was made by check and the form of payment was incorrectly identified in the accounting software. The Assistant Manager of Business Operations told us he did not think it was important to ensure that receipts were deposited in the same form as collected so he does not look for this type of discrepancy.
- Twenty invoices were for items transported at no charge. Thirteen of the 20 invoices were for medical-related freight or items related to District business. The District should have collected \$18 in fees for the remaining seven invoices. Six of the seven invoices were transported for the same vendor located on Fishers Island. The Assistant Manager of Business Operations could not explain why these seven items were transported at no charge.
- Six of the invoice numbers that were included on the freight manifest for the week tested were not in sequence. One invoice number was from the prior month, one invoice number was from two weeks prior and four invoice numbers were from the prior week. The Assistant Manager of Business Operations stated that the dates for invoices are changed to the pickup date. However, he could not provide an explanation as to why this would be necessary and provided no evidence to support this statement.
- Eight invoice numbers are missing from the sequence. One was found dated in the prior week, three were found dated in the week after and four were not found at all. The Assistant Manager of Business Operations could not explain these out-of-sequence and missing invoice numbers.

Because there is no reconciliation between the tracking software and the invoicing and recording of cash receipts and deposits, freight fees are not properly collected and accounted for. Further, the lack of management oversight resulted in inaccurate collections and records, late deposits and collection of checks that were recorded as cash, making the records appear as if deposits were not made intact.

## Rents

According to the lease agreements, rent payments are due on the first of each month. The District may impose a late fee equal to 5 percent

of the monthly rent per day for any amount that is five days late. On the first of the month the Fishers Island freight agent creates an invoice for each rental property in the District's financial software. Rent payments are received, recorded and deposited by the Fishers Island freight agent. Tenants may pay their rent in person at the Fishers Island freight office, by mail or they may elect to have a credit card account on file with the District. Regardless of payment type, duplicate pre-numbered receipts are not issued and a cash receipts log is not maintained. Although leases allow for imposing a late fee, the District does not do so.

The District does not have written policies and procedures for billing and collecting rent receipts and has not adequately segregated duties for billing, collecting, recording and depositing rent receipts. In addition, the Assistant Manager of Business Operations does not review the rent charges or adjustments the Fishers Island freight agent posts to the rent account. No one independent of the Fishers Island freight agent reviews the supporting documentation for the deposits to ensure collections are deposited in a timely manner and intact.

We reviewed rent billings and collections for three properties, which comprised 48 invoices totaling \$37,059 and 31 payments totaling \$38,227 of which \$36,602<sup>16</sup> was for payment towards these invoices. We found:

- Thirty-three of the 48 invoices totaling \$14,479 were paid more than five days late. Had the District imposed the penalty as stated in the lease, it could have collected \$20,534 in penalties for late payments. The Assistant Manager of Business Operations could not explain why the District does not impose penalties.
- Ten payments totaling \$12,470 were deposited 10 or more days after the date they were posted to the accounting software. For example, a rent payment totaling \$1,841 was paid on January 5, 2015, but was not deposited until February 18, 2015, 44 days after collection. The Assistant Manager of Business Operations stated that all rent checks are held until the lessees provided insurance documentation.<sup>17</sup>
- The District could not confirm that three payments totaling \$2,787 were deposited intact because the District does not

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<sup>16</sup> The payments included \$1,414 for 2013 rents and \$211 for security deposits.

<sup>17</sup> All lessees are required to provide the District with their updated insurance documentation each year. The District will not deposit a rent payment until they receive the insurance documentation, even if it is a lessee who is already occupying the property.

issue receipts and there is no check number associated with the payments in the accounting software. The Assistant Manager of Business Operations told us he did not think it was important to ensure that receipts were deposited in the same form as collected so he does not look for this type of discrepancy.

- One invoice for \$429 from December 2014 remained unpaid as of April 30, 2015. The Assistant Manager of Business Operations told us that rent collections during the audit period were not a priority.
- In January 2015 the District billed one customer \$28 less than the rent amount in the lease agreement. The Assistant Manager of Business Operations stated that this adjustment was made deliberately to adjust the lessee's security deposit held by the District. However, the security deposit records obtained in January 2016 confirm no adjustment was made to the security deposit balance. When we brought this to his attention, the Assistant Manager of Business Operations stated this was an oversight.

These discrepancies occurred because the Board has not established appropriate procedures to collect, record and deposit cash receipts by adopting and disseminating a comprehensive cash receipts policy. The Fishers Island freight agent's duties related to cash receipts are not adequately segregated, resulting in the freight agent performing the incompatible duties of collecting cash, recording receipts and preparing bank deposits. District management did not mitigate this risk by ensuring cash collected was reconciled to collections recorded. Further, the lack of oversight by management resulted in late deposits and collection of checks recorded as cash, making the records appear as if deposits are not intact. Lastly, because the Assistant Manager of Business Operations does not oversee collections, late fees for lease payments are not imposed and collected. This lack of direction and oversight results in an increased risk that cash receipts could be lost, stolen or misappropriated without detection. In addition, the District may not be collecting all revenues.

## Recommendations

The Board should:

12. Adopt a comprehensive written policy and develop procedures for collecting, processing, recording and depositing cash receipts.

The Assistant Manager of Business Operations should:

13. Require a reconciliation of the data in all software applications.

14. Ensure that the duties for collecting, processing, recording and depositing cash receipts are adequately segregated or implement sufficient compensating controls such as increased management reviews.
15. Ensure that District personnel prepare invoices and collect all fees due to the District.
16. Ensure that District personnel deposit all cash receipts on a timely basis.
17. Ensure that duplicate pre-numbered receipts are issued for all moneys collected.
18. Require District personnel to investigate and resolve all discrepancies identified in this report.
19. Require District personnel to properly identify the form of collection for all cash receipts.
20. Require District personnel to deposit cash collected in the same form and amount as received.
21. Maintain a perpetual inventory of ticket books.
22. Investigate unaccounted for ticket books and unbilled fees.
23. Investigate and resolve all missing invoices.
24. Impose and collect late fees for all lessees that do not make rent payments in accordance with their lease agreement.

## Purchasing

General Municipal Law (GML) requires that purchase contracts in excess of \$20,000 be awarded to the lowest responsible bidder or on the basis of best value (competitive offer) and that contracts for public works that exceed \$35,000 be competitively bid. Purchases of like items that aggregate to competitive bidding thresholds during a fiscal year also must be publicly bid. GML further requires that municipalities adopt a written procurement policy governing the procurement of goods and services that are not subject to competitive bidding requirements. With certain exceptions, the procurement policy must require that alternative proposals or quotations for goods and services be secured by use of written or verbal proposals or quotations.

The primary purpose for obtaining bids, quotes and proposals is to encourage competition in the procurement of supplies, equipment and services that will be paid for with public funds. The use of competition provides residents with the greatest assurance that goods and services are procured in the most prudent and economical manner and at the lowest possible price and that the procurement is not influenced by favoritism, extravagance, fraud and corruption. In addition, when the use of credit cards is allowed for procurement, it is the Board's responsibility to establish controls over their use to prevent unnecessary and improper payments.

The District has not updated its procurement policy for at least five years, and competitive bidding threshold amounts in the policy have not been adjusted to reflect current requirements. The District's procurement policy requires competitive bids for purchases in excess of \$10,000 and public works contracts in excess of \$20,000. It also requires written quotes for purchase contracts and public works contracts where dollar amounts are below the bidding thresholds. It allows for exemptions to the policy when goods and services are purchased using a State, county or other government contract; in emergencies; and where a sole source situation exists. The policy does not authorize credit cards but does require District officials to keep all information and documents on file that support compliance with the policy.

The District paid 169 vendors \$2.8 million during the audit period. We selected a judgmental sample<sup>18</sup> of 15 vendors who were paid a total of \$676,495. We also reviewed two months of credit card purchases totaling \$36,888. District officials did not adhere to GML requirements

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<sup>18</sup> Please refer to Appendix B for further information on our sample selection.

for purchases of goods and services subject to competitive bidding, and did not always follow the District's purchasing policy for purchases requiring quotes or requests for proposals (RFPs). The two credit cards that were in use had excessive credit limits (\$40,000 and \$20,000) and cash advance limits of \$8,000. Further, some purchases made using the credit cards lacked sufficient supporting documentation.

## **Competitive Bidding**

In accordance with GML, the Board adopted a procurement policy for goods and services that are not subject to competitive bidding requirements. Board minutes indicate that a review of the policy was done on an annual basis as required by GML. However, the policy references statutory dollar thresholds that were increased more than five years ago. If the District's policy were strictly followed as written, officials would be required to competitively bid purchases at lower thresholds than GML presently requires. GML currently requires the Board to advertise for bids for purchases in excess of \$20,000 and public works contracts in excess of \$35,000.

We judgmentally selected and reviewed<sup>19</sup> purchases from three vendors that exceeded GML's competitive bidding thresholds. These three vendors were paid a total of \$617,037<sup>20</sup> but the District did not solicit competitive bids as required. The District paid these vendors for diesel fuel (\$364,706), annual repair work (\$166,177) and ongoing maintenance repairs for the ferries (\$85,154). District officials told us they did not seek competitive bids because they did not understand the requirements of obtaining competitive bids versus obtaining quotes.<sup>21</sup> In addition, District officials were not aware that purchases in the aggregate were subject to competitive bidding thresholds. Although the annual repair work for the ferry was publicly advertised and sealed bids were solicited, District officials did not schedule a public opening of the sealed bids. Instead, bids were opened upon receipt, and a vendor was chosen after the submission deadline. By not following GML, District officials cannot assure residents that purchases are made in the most economical manner.

## **Competitive Quotes**

The District's procurement policy requires two written quotes for purchases between \$1,000 and \$2,999 and three written quotes for purchase contracts between \$3,000 and \$9,999. The procurement policy requires two written quotes for public works contracts between

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<sup>19</sup> Please refer to Appendix B for further information on our sample selection.

<sup>20</sup> Each vendor was paid an amount in excess of the current GML thresholds.

<sup>21</sup> Competitive bid solicitations are required to be publicly advertised, received in writing and remain sealed until publicly opened at a scheduled place and date. Competitive quote solicitations are made to vendors who offer prices that may be received in writing or verbally depending on the provisions in the procurement policy.

\$1,000 and \$9,999 and three written quotes for public works contracts between \$10,000 and \$19,999. For all prospective solicitations of professional services, District officials should obtain a written, faxed, or emailed estimate and statement of qualifications from at least two sources except when otherwise directed by the Board. In addition, the policy requires District officials to keep on file all information and documents that support compliance with the policy.

We judgmentally selected and reviewed<sup>22</sup> the documentation for purchases made from 11 vendors who were paid a total of \$56,998 that required written quotes and one professional service provider who was paid \$2,460 for which the solicitation of the services required two estimates with statements of qualifications. District officials did not obtain the required written quotes for eight purchases totaling \$36,119. In addition, they did not obtain written estimates with statements of qualifications for the professional service. District officials told us they were not aware they had to consider purchases in the aggregate when applying the requirements of the purchasing policy.

Further, in one of the three instances where the policy was followed, the quote that was accepted was for \$4,900 for fendering<sup>23</sup> on 17 ferry slip piles. However, the District paid \$9,550, or almost double the amount quoted. District officials had no explanation for the discrepancy between the quoted price and the price paid.

By not obtaining quotes in accordance with the District's purchasing policy, the District could have incurred higher costs than necessary for the goods purchased and the services received.

## Credit Cards

Local governments commonly use credit cards for the convenience of making purchases by telephone or online. It is important to communicate to District officials the specific guidelines for credit card use. The Board should, by resolution, establish a comprehensive credit card policy that authorizes the use of credit cards and identifies the number of credit cards that can be issued with the credit limit for each card. The policy should identify the individuals who are authorized to use credit cards, provide dollar limits for purchases, establish control procedures over the custody of the credit cards and the monitoring of their use, describe the types of purchases allowed, documentation required to support the purchases and responsibilities of the cardholders for unauthorized purchases. Purchases made on the credit card should adhere to the requirements of the District's procurement policy. Adequate controls over the use of District credit cards are required to prevent unnecessary and improper payments.

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<sup>22</sup> Please refer to Appendix B for further information on our sample selection.

<sup>23</sup> A cushioning device, such as a bundle of rope or a piece of timber, used on the side of a vessel or dock to absorb impact or friction.

The Board should also ensure that credit cards do not allow for cash advances.

The Board has not authorized the issuance of credit cards and has not adopted policies governing the use of District credit cards. Although the Board did not adopt a credit card policy or authorize credit card use, the District issued two credit cards, one to each Assistant Manager, who made credit card purchases totaling \$118,885 during the audit period. These credit cards have total cash advance limits of \$8,000. This is an unnecessary feature and increases the risk that unauthorized cash withdrawals could occur.

The Assistant Manager of Business Operations and Assistant Manager of Marine Operations verify the credit card charges and sign off on the credit card statements indicating their approval of the charges. However, the Town Board uses the statements, without all supporting documentation, to approve the payment of the charges.

We reviewed 53 charges totaling \$36,888 and found that the claims were paid without sufficient supporting documentation attached. For example:

- Eleven credit card purchases totaling \$17,095 required quotes but none were obtained. For example, a charge for maintenance parts for a ferry boat totaling \$2,270 required two written quotes but the District did not obtain any.
- Thirteen purchases totaling \$11,423 did not contain proof that the goods or services were received. For example, a charge totaling \$5,355 for cables had a handwritten notation which stated “freight damage.” No further explanation or support was attached.
- Eight purchases totaling \$8,914 lacked sufficient documentation to identify whether the purchase was for a valid District expenditure. For example, three charges totaling \$1,993 were for education courses for an employee.

Without a written policy for credit cards, District officials had no clear guidelines to hold credit card users accountable for their purchases. Further, without sufficient supporting documentation, such as receipts and invoices, the Board cannot be assured that purchases comply with the District’s purchasing policy or are for proper District expenditures.



## Recommendations

The Board should:

25. Ensure that District officials adhere to the purchasing policy and competitive bid laws when purchasing goods or entering into public works contracts in excess of the thresholds established by policy and/or GML.
26. Adopt a comprehensive credit card policy to govern the use of credit cards and communicate guidelines to District personnel.
27. Formally authorize the acquisition and use of any credit cards for official District business.
28. Ensure that all credit card claims are adequately supported and a necessary District expenditure prior to approving payment.
29. Ensure that credit card accounts do not allow for cash advances.

The Assistant Manager of Business Operations should:

30. Ensure that sufficient supporting documentation is attached to each claim prior to submitting it to the Town Board for audit and payment approval.

The Town Board should:

31. Ensure that all credit card charges are adequately supported before authorizing payment.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# Fishers Island Ferry District

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## Response to Draft Audit Report

The Board of Commissioners of the Fishers Island Ferry District acknowledges receipt on 21 June 2016 of the Draft Report of Examination for the period January 1, 2014 – April 30, 2015 reference 2016A-156 by the Division of Local Government and School Accountability of the State of New York Office of the State Comptroller. Our Board appreciates the time and effort allocated to the support of our work by the Office of the State Comptroller. While we have had annual independent financial audits for many years, these audits have not gone to the depths of investigation and analysis that your office put into this report. Your work has helped us to better understand certain weaknesses in our policies, processes and controls, which we are addressing immediately.

In that regard, we made substantial progress in many areas following the oral report provided to our staff on August 31, 2015. Last month, we engaged a local accounting firm to consult with us on accounting policy and procedures and to address the weaknesses noted in our annual audit. Upon receiving your written draft on June 21, 2016, the Board immediately began addressing the items identified. During this month alone, we have drafted and passed four corrective resolutions establishing necessary policies to address certain noted deficiencies. In addition, we began drafting a Corrective Action Plan that documents the changes we have made to date, and those that are planned in the future, with the timeline and milestones for completion and implementation. Our objective is to bring Fishers Island Ferry District accounting systems, policies, procedures and oversight to the highest level of excellence. The Board takes your 2015 audit report, the first since 1982, and the

deficiencies outlined in it, with the utmost concern. Our Board and your office share the same goals, which is the appropriate management of municipal ferry assets, and we are resolved to implement the steps to do this as rapidly as we can.

This report mentions that the District established pursuant to an Enabling Act dating from 1947. You noted that the Act provides for a structure that is unique, with a relationship between the Town of Southold and the District, which is not seen in other government structures. We have had a concerted effort in the past 4 years to better understand the Town's needs and requirements, but come to the conclusion that changing to a more normal structure for a municipal District within a Town may be necessary to achieve better efficiencies and management control.

The report mentions that the Board chose a different management approach following the resignation of the Manager in July 2014. The Board's decision to seek an alternate management structure was a thoughtfully considered approach to resolving certain past issues. The Board will review the management structure from time to time and may change to a single manager in the future.

## **Payroll**

The report mentions our 77 full-time, part-time and seasonal employees. The fact that we have only 23 full time employees confirms the significant level of seasonality in our traffic. Thus we have a large burden of HR, payroll, civil service compliance and training that is proportionally much larger than our financial size and full-time staff.

The most significant and troubling finding in this section of your report is the possible overpayment of leave accruals on an employee separation. As the report noted, the Board approved the then Manager's recommendation in January 2014 on realigning responsibilities between the Marine Operations Supervisor and the Assistant Manager Marine Operations. The Board was made aware of a potentially large leave accrual of the Manager Marine Operations by the Manager, and directed

him, with advice of HR counsel, to make appropriate arrangements for the utilization of leave accruals during the planned transition period. Commissioner Rugg advised you of this understanding. Unfortunately, correspondence between HR counsel and the former Manager was not filed with the employee's records or in any other District file. Commissioner Rugg asked HR counsel for all relevant documentation during your audit and passed it on to the audit team. However, it only recently became clear that HR counsel had not delivered certain email correspondence with the former Manager to Commissioner Rugg for your audit team. Upon his separation, in July 2014, the former Manager was required, within 3 months, to provide to the Board a written list of all outstanding uncompleted matters and relevant files. The former Manager neglected this issue in his report. Thus the utilization of the leave accrual was not in any of the Ferry District's personnel records when the former Marine Operations Supervisor was separated. That separation should have come to the Board for approval in accordance with our policy for Board approval of all hiring, compensation changes and separations and this was an error by the BOC. However, without the leave accrual records neglected by the former Manager, it is likely that a leave accumulation mistake would have occurred even with BOC approval.

We recognize that your review found numerous time record errors. The payroll software system in use at the time of your review was not operating properly and has since been replaced. Nevertheless, your finding of many errors shows clearly the need for better management, control and regular reconciliation of the payroll records, and that began immediately following your verbal report.

Since that verbal report to the Assistant Managers, and prior to the receipt of your written draft report, management has reconciled all leave accrual records having gone back to 2013 manual documents. In addition, District has implemented a new time clock management system to address many of these payroll and accrual issues and in July 2015 payroll was tasked to the Accounting Supervisor. Furthermore, outside HR counsel is preparing the necessary documentation to seek recovery of

any over payment for leave accruals. New policies and procedures covering substantially all of your recommendations for the Board were prepared and adopted July 18, 2016. Our Corrective Action Plan on this section of your report is well along in preparation and we anticipate timely implementation of all the needed corrective actions.

### **Cash Receipts**

The report cited numerous instances of failure to reconcile cash, deposits, and postings with sales reports and other documents. The past understanding of the Finance Committee and the Board was that the policy for proper control and reconciliation was in place. However we now know that procedures for posting and reconciliation were not being timely done. We knew that separation of powers was hampered by the small District full-time staff, particularly on Fishers Island where ticketing and freight collections are in separate offices, but we were unaware of the extent of the issues. Your report helped us to see these issues in a different light and we have taken substantial steps to improve our management and control in these areas. The Board has called for cash receipts to be deposited daily and reconciled to bank deposit slips in the form received. Freight tracking slips are being reconciled to billing systems, and the tracking system itself is being evaluated for possible upgrade later this fall. We have conducted a comprehensive training with FIFD staff concerning these issues and the importance of adhering to proper cash management procedures. We have reviewed aged accounts receivables regularly, and the option to impose a 5% late fee has been viewed as an aid in collections and preventing long over due accounts. The FIFD Property Committee is conducting a review of all leases and lease terms, including late fee policy terms. Once the Property Committee finishes its review, the Board will consider its recommendations and pass and implement an appropriate late fee policy.

Your report noted a failure to reconcile ticket books. This issue has been reviewed in detail, and we have now accounted for all ticket books, including the books worth

\$1,575 mentioned in your report as missing. New procedures going forward will prevent this situation happening in future.

On July 18, 2016, the Board passed updated cash management and reconciliation policy. Furthermore, our Corrective Action Plan for these cash receipt, timely deposit, and ticket book issues is substantially complete and will be implemented directly.

### **Purchasing**

This Board appreciates your explanation of General Municipal Law ('GML') for purchase contracts. We are largely a Board of business people trying to make wise decisions for the management of the District. None of the Board has any significant municipal government purchasing experience. We were aware of the existing District policy on levels of purchasing that required evaluation of three bids for amounts over \$3000 or the solicitation via RFQ for projects over \$10,000. In larger public works projects, we historically relied on consultants to manage the process and we were not apprised of the details of the law.

During 2015, prior to your audit work, we were aware of certain failures we had with purchasing requirement of GML. At that time we engaged counsel to give us a better understanding of the law and to assist with the drafting of bid documents and resolutions to be sure that we raised our standard of compliance. In order to understand the application of certain Public Works laws, we spent considerable effort in the latter half of 2015 to get the right answers from outside counsel working with departments of the State of New York. This background is offered to show the good intentions of Management and the Board, and the lengths that we have gone in efforts to comply with GML.

As a result of your work and report, we now have a more clear understanding of the law and how to comply. In October 2015, we updated our procurement policy limits to be in line with the Office of NY State Controller. We also began a process of legal

review of all Board Resolutions, and a closer liaison between our attorneys and the Town Attorney for Southold.

While the Board approved the present credit cards, a more detailed policy is needed on their utilization. Credit card purchases are reviewed regularly by the BOC in the course of approving the warrants. We want to have open accounts with suppliers if possible, but there is pushback from some suppliers who prefer credit card for reasons of credit management and timely payment. We are aware of certain statewide open account supplier services and attempt to avail ourselves when possible.

In the Audit, the largest non-bid, non-GML compliant purchase cited was fuel purchases. The fluctuations in oil prices are such that we can only get bids on the spread over 'rack' price. This biddable amount is thus a fraction of total value of the fuel cited. Regarding annual maintenance and ferry repairs, the management in place prior to the tenure of the present Marine Operations Manager was under the mistaken understanding that there was only a sole source available for these services and thus it could not be bid competitively. The present Marine Operations Manager has found ways to get effective bids from a range of more distant shipyard services, and we can now fully comply with procurement policy. Following your verbal report, we ceased accepting email bid proposals as these are difficult to properly secure prior to a bid opening meeting.

The Board is resolved that we will update the fuel bids on a regular basis going forward, that credit cards will only be used when open account is not possible, and that all credit card purchases will comply with procurement policy, with documentation that the goods or services are received by the District. A credit card resolution was passed on July 18, 2016. Bid opening procedures have been tightened. Outside counsel on procurement and maritime matters is now more involved in the drafting of RFQ for major projects and public works. We will be



evaluating a purchase order system that will have the procurement policy embedded to assure a higher level of compliance.

The Corrective Action Plan for changes needed on FIFD purchasing process is nearly complete. Much of the necessary actions have been take in response to the certain experiences outlined above. With better advice from counsel on procurement, more focused on our GML procurement requirements, we are now more able to comply.

The work of the audit team is much appreciated. They have helped us in many ways. We understand that there is a plan for more regular audit work with local government entities with a 5-year cycle. We expect that the next cycle will be less stressful for the audit team and the District.

For the Board of Commissioners



Andrew Ahrens, Chairman

20 July 2016

**SCOTT A. RUSSELL**  
SUPERVISOR



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August 2, 2016

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250 Veteran's Memorial Highway, Room 3A-10  
Hauppauge, NY 11788

RE: Fishers Island Ferry District, Financial Operations, Report of Examination 2016M-156

Dear Mr. McCracken:

The Fishers Island Ferry District was established as a result of "enabling" legislation adopted by the New York State Legislature on November 17, 1947 (see chapter 699 of the laws of New York State, Section 194 of Town Law). The legislation, as adopted, empowers a newly created and independent Fishers Island Board of Commissioners with certain authority that substantially limits Town Board oversight. Further, the legislation provides no enforcement component for actions that the Town Board can take when the District doesn't follow best management practices in handling the District's finances. Specific concerns of the Town's fiscal oversight are addressed below.

Section 5 states "The affairs of the district shall be under the jurisdiction, control and supervision of a board of five commissioners". It is true that this section clearly states that some functions of the commissioners are "subject to approval of the Town Board", i.e. the signing of contracts/leases, appoint/remove a manager, adopt and amend rules governing operation of the District. However, it offers no authority to the Town Board to compel the District to take action on any of these functions or to make timely submissions to the Town Board for approval. In many instances, contracts have been executed prior to submission to the Town Board for approval - the Town learns of these contracts only after receipt of invoices submitted for payment. No provisions exist in the legislation that permit the Town to nullify contracts or "recall money" paid to vendors other than to expose taxpayers to the costs of expensive litigation - litigation which the Town would likely lose. Town representatives have met with District commissioners and have repeatedly demanded the District to act on its authority and responsibilities outlined in Section Five and have as well made other recommendations which generally have not prompted the District into action. The legislation provides no authority to hire a manager or adopt/amend rules governing the District without prior District action. Section 5 directs the District to hire a manager -- the Town believes that the absence of a full-time, day-to-day manager severely limits the District's ability to provide responsible oversight and has made that very clear to the District, yet the position remains unfilled.

Section 6 requires that an account for the District be established solely for the operation and that it shall be designated by the supervisor and “to the credit of such Supervisor”. It also requires that the commissioners submit a report of activities for the *preceding month* and that the report include all “obligations of the district *unpaid* at the time of the report”. It permits the board to determine details as it may require, but there is no mechanism that gives the board the authority to compel the district to comply. Further as stated above, activities of the district generally take place prior to Town Board approval. Any audit of activities after the fact gives the Town Board virtually no ability to take action.

Town officers and officials have met with the commissioners on several occasions. The Town has provided regular guidance, has made several recommendations and has made several reasonable demands. Had any of these been acted on, we believe that the District’s audit would have resulted in a far different finding. The Town’s ability to act without direct authority granted in the enabling legislation gives the Town few options, all of which would likely cause the ferry operation to cease. Given that the ferry is the only link between Fishers Island and the mainland that is an option that the Town could never take.

It is the Town’s hope that the State Comptrollers audit, which highlights the many weaknesses of the management of the ferry and the poor management of its finances, will be the final catalyst for change. We look forward to working with the Fishers Island Ferry District Board of Commissioners to implement their corrective action plan.

Sincerely,

Scott A. Russell  
Supervisor

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and employees to gain an understanding of the process used to record time worked and leave accruals earned and used; the process for the collecting, recording and depositing of car and traffic, freight and rental cash receipts; and the purchasing process.
- We reviewed the CBA and employee handbook establishing employee benefits.
- We reviewed the District's purchasing policy and related District purchasing procedures.
- We reviewed the Board minutes, separation agreement and supporting records for the two separation payments made during the audit period.
- We judgmentally selected a sample of five employees and compared time card and payroll records to leave records to determine if correct leave types and amounts were deducted from employee's leave accrual balances. We also verified that the amount of the earned leave and leave carried over to the next year complied with the CBA and employee handbook. Our sample consisted of 20 percent of the 23 full-time employees who earned and accrued leave time. We selected three employees who had access to the timekeeping software (the employee who maintained the leave accrual records and the two managers who approved the use of leave time). The remaining two employees were selected based on hire date and leave accrual balances.
- We judgmentally selected a sample of five employees and four pay periods to compare the hours worked on the original time sheets/timecards. We calculated gross pay based on the contract rates in the report provided by the District to the Town and the payroll register returned to the District by the Town. There were 35 pay periods in our audit period (26 in 2014 and nine in 2015). We judgmentally selected five of the full-time employees (20 percent). We selected two employees who had access to the timekeeping software and three other employees because they were the highest hourly wage earners in 2014. We chose full-time employees because we wanted to include employees who could earn overtime and full-time employees were much more likely to earn overtime. We selected four pay periods (10 percent), three pay periods during the peak season and the last pay period in the audit period.
- We observed the process for ferry reservations, ticketing and freight operations, including the computer software used for both ticketing and freight.
- We interviewed information technology consultants to gain an understanding of the controls over the computerized ticketing system and freight tracking software.

- We judgmentally selected 16 days of ticketing and reservation receipts, one day from each of the 16 months in the audit period starting with January 2, 2014, selecting even days through March 30, 2015 (1/2, 2/4, 3/6, 4/8, 5/10, 6/12, 7/14, 8/16, 9/18, 10/20, 11/22, 12/24, 1/26, 2/28, 3/30) and selected April 1, 2015 for the final day. We reviewed and compared the daily summary activity reports, daily detailed activity reports, deposit slips and bank statements, deposit entries in the financial software and the daily charge account reports. We documented sales charged to established accounts and no-charge sales.
- We expanded our scope through July 22, 2015 to examine the District’s ticket book inventory and obtained the invoice for the last shipment of adult non-resident ticket books purchased by the District. We quantified the tickets on hand with the Assistant Managers at the Fishers Island terminal and at the New London terminal. We compared this to the number of adult non-resident ticket books issued to each terminal and the ticket books sold per the ticketing software report.
- We judgmentally selected the last full week in our audit period to review freight operations. We compared the entries for the week in the tracking software to the freight manifests and invoices for the week. We compared the invoiced freight for the week to the deposit slips and bank statements.
- We judgmentally selected three leases which included the highest monthly rent due, the lowest monthly rent due and one in the middle of these two dollar amounts based on the average monthly rent. We compared the lease agreements to the monthly invoiced rents, payments, deposit slips and bank statements.
- We judgmentally selected a sample of vendors to test for compliance with GML and District policy purchasing requirements.
  - o We identified a total population of 159 vendors paid a total of \$2 million during the 2014 fiscal year.
  - o We removed all vendors from our testing sample who were paid less than the \$1,000 quote threshold and other vendors based on vendor name that would not have to comply with the purchasing policy (such as utilities). This left a total population of 75 vendors paid a total of \$1.4 million. We confirmed there were no new vendors in the 2015 period that would increase our population. The remaining 75 included 16 vendors requiring competitive bidding, 20 vendors requiring three written quotes and 39 vendors requiring two written quotes based on the District’s purchasing policy.
  - o We judgmentally selected 20 percent from each threshold, based on vendor name and dollar amount. Our sample included three in the competitive bid threshold, four requiring three written quotes and eight requiring two written quotes (including one professional service provider).
- We reviewed pertinent documents for each sample vendor selected including quotations, vouchers, vendor invoices and written vendor agreements.

- We reviewed vendor histories and related invoice details to determine if aggregate purchases exceeded bidding limits.
- We obtained a vendor history report for the credit card account and selected the month in each year of the audit period with the highest dollar amount in charges. Our sample included 53 credit card charges totaling \$36,888. We reviewed pertinent documents to determine if the charges were adequately supported, for valid District purposes and in compliance with the District purchasing policy.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX C

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