



Town of Hempstead Sanitary District Number 14 Board Oversight

Report of Examination

Period Covered:

January 1, 2015 – September 30, 2016

2017M-40



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2017

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 of Commissioners governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Hempstead Sanitary District Number 14, entitled Board Oversight. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

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

Respectfully submitted,

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

Introduction

Background

The Town of Hempstead Sanitary District Number 14 (District) is located in the Town of Hempstead in Nassau County. The District provides garbage collection and recycling pickup services to more than 2,200 residents and several local beach club properties in East Atlantic Beach and Atlantic Beach Estates. Owners of homes and businesses within the District fund the District through real property taxes. The District's total expenditures were approximately \$353,860 in fiscal year 2015. The District's budgeted appropriations for 2016 were approximately \$373,300.

The District is governed by an elected five-member Board of Commissioners (Board). The Board is responsible for managing District operations, adopting policies and making sound financial decisions in accordance with law and in the residents' best interest. The Board is responsible for auditing and approving claims prior to payment. A Board member serves as the Treasurer. The Treasurer is the District's chief fiscal officer, responsible for the receipt, custody, disbursement and accounting of District funds. Another Board member serves as Secretary and is responsible for custody of the books, records and minutes of Board meetings, and certifying those minutes.

Objective

The objective of our audit was to assess the Board's oversight of the District's financial operations. Our audit addressed the following related question:

- Did the Board establish and maintain an internal control environment that fosters compliance and transparency?

Scope and Methodology

We examined the Board's oversight of the District's financial operations for the period January 1, 2015 through September 30, 2016.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or 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 disagreed with certain findings in our report. Appendix B includes our comments on issues raised in the District's response.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of 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 office.

Board Oversight

The Board is responsible for overseeing the District's financial operations and safeguarding its resources. This requires the Board to establish and enforce clear and adequate policies and procedures over District operations. The District is required to adopt policies in accordance with General Municipal Law (GML) and should adopt other policies that are relevant to District operations. When the District hires consultants to perform work on its behalf, the Board should ensure that the consultants adhere to District policies and procedures, and gain reasonable assurance that they follow laws and standards in accordance with their professions.

To adequately safeguard the District's cash, the Board should ensure that bank reconciliations are prepared monthly, and any differences between the net bank balances and general ledger cash accounts are investigated and explained. Furthermore, Public Officer's Law requires the Board to prepare and maintain adequate records of the Board's meetings. These records should include a summary of all motions, proposals, resolutions and all other matters formally voted on by the Board, including the payment of claims. The Board's meeting minutes should be made publicly available. Finally, the Board must ensure that required reports are completed and filed with the appropriate entities in accordance with GML.

The Board has not established an internal control environment that fosters compliance and transparency due to its lack of policies, guidelines and monitoring. The District has not adopted any policies or procedures required by law or any that outline the District's specific operations. The Board did not ensure that bank reconciliations were performed and did not ensure that the Secretary included sufficient detail in the Board's meeting minutes. Further, the claims to be paid were not presented on an abstract, and Board minutes did not indicate that the Board authorized, via resolution, the payment of claims audited and reviewed. The District is also not in compliance with statutory filing requirements because it has not submitted its financial statements to the Office of the State Comptroller (OSC). Finally, the District pays a certified public accountant (CPA) to maintain its books and prepare and audit the District's financial statements. This arrangement raises questions about the CPA's independence and, ultimately, the reliability of the information in the audited financial statements and their value to the Board as a tool for monitoring operations.

Policies

As a legislative body, the Board generally establishes and oversees much of the policy, financial and ethical framework within which the

District operates. The Board should, and in some cases must, develop and formally adopt policies that establish control procedures and other requirements for daily financial and other operations. Every Board-adopted policy should be understood by all Board members, customized to fit the District's unique needs, reviewed periodically and updated if needed. Properly designed and functioning controls reduce the likelihood that significant errors or irregularities will occur and remain undetected.

Code of Ethics — GML requires municipalities to establish a code of ethics that establishes standards of conduct reasonably expected of District officials and employees. A code of ethics must provide standards of conduct with respect to disclosure of interests, the holding of investments that are in conflict with official duties, private employment in conflict with official duties, future employment, and such other standards relating to the conduct of officials and employees. It should also prohibit the use of one's public position for personal gain and provide standards for avoiding the appearance of impropriety. Additionally, consistent with the law, a code of ethics should address the receipt of gifts, the handling of confidential information and the enforcement of the code. A copy of the code of ethics should be distributed to every District official and employee.

The Board did not adopt a code of ethics. District officials told us that they developed employee guidelines which are distributed to all employees. However, these guidelines do not address appropriate conduct expected by officials and employees, disclosure of business interests, the receipt of gifts or any other requirement outlined in GML. The guidelines discuss items such as work days, garbage collection hours, the payroll cycle, and vacation, sick and holiday leave time. To determine whether there were any conflicting business interests between Board members and the District's vendors, we requested and reviewed conflict of interest forms from each Board member. None of the Board members disclosed any conflicts, and we did not identify any conflicts when comparing information provided in the forms to the District's vendor list.

The Treasurer told us that the Board was not aware that the District was required to establish a code of ethics. When the Board does not adopt a code of ethics, District officials and employees have no outlined standards of conduct. District officials may have personal interests that would be in conflict with the District's conducted business. Furthermore, because it lacks a code of ethics, the District does not provide reasonable expectations to Board members or employees in regards to receiving gifts, handling confidential information or enforcing the District's rules.

Investment Policy — GML requires the District to establish an investment policy which includes standards for security and collateral agreements, a list of types of permitted investments, standards for the diversification of investments, standards for the qualifications of firms for which the District conducts business, and procedures to satisfactorily secure the District's financial interests in investments. The investment policy should be reviewed annually.

The Federal Deposit Insurance Corporation (FDIC) provides deposit insurance up to \$250,000 for accounts held by government depositors in an insured depository institution. The District must obtain a pledge of eligible securities, or other permissible securities, to ensure that the amount of deposits and investments in excess of FDIC insurance is adequately protected.

The Board did not adopt an investment policy in accordance with GML or obtain security for amounts in excess of FDIC insurance. As of September 30, 2016 the District had one business investment and one checking account with a combined balance of \$413,932. The Treasurer told us that the accounts with the bank predate her tenure on the Board, and she is not aware of any investment policy or security agreement with the bank. In addition to the lack of investment policy, the Treasurer told us that there is no formal documentation or Board-adopted resolution authorizing how and when money is set aside in the investment account. Our review of the business investment account showed minimal activity during the audit period. Aside from interest income of about \$280, no funds were added to the account during the audit period and \$865 was expended from the account.

We reviewed the District's bank accounts' total balances as of December 31, 2015, June 30, 2016 and September 30, 2016 to determine whether collateral was needed and how much the District should have collateralized in those months. The District needed collateral in all three months reviewed, ranging between \$51,000 and \$172,000. For example, as of September 30, 2016 the District's bank account balances totaled \$413,942 and required up to \$172,140 of collateral. Additionally, because no collateral was pledged for the District's money in excess of FDIC amounts, no District official performed a monthly collateral summary.

Board members told us they were not aware that the adoption of an investment policy and the security of amounts in excess of FDIC insurance were statutory requirements. Due to the lack of an investment policy, District officials have no guidance dictating how District funds can be used, invested, monitored and secured. Additionally, the District had \$163,942 at risk because no collateral was in place with the bank to secure deposits exceeding FDIC insured amounts.

Procurement Policy — GML requires the Board to adopt a written procurement policy governing the purchase of goods and services that are not subject to competitive bidding. An effective procurement policy helps ensure that goods and services of the right quality, quantity and price are purchased without the influence of favoritism, extravagance or corruption. This policy should indicate when District officials must obtain quotations and requests for proposals (RFPs), outline the procedures for determining which method will be used, and provide for adequate documentation of the actions taken.

When procuring professional services, the Board should ensure that there are approved written agreements which specify the terms of service, compensation rate and the services to be provided. Additionally, the policy can address the use of credit cards, and should address the specific circumstances under which credit cards may be used. Such policies could include who is authorized to use credit cards, prior approval(s) needed, dollar limits and types of expenses for which credit cards may be used, and what documentation must be presented to support the claim submitted for audit.

The Board did not adopt a procurement policy. In addition, the Treasurer told us that the District has not sought competitive quotes for any purchases of goods or services under the bidding threshold. We reviewed all 83 purchases of goods and services totaling \$116,918 made from 10 vendors and found the District did not seek competition for any of them. The District's largest expense was paid to its insurance provider, which totaled \$59,780 for the audit period: \$29,246 in fiscal year 2015 and \$30,534 through September 30, 2016. The Treasurer told us that the Board did not use an RFP process when choosing the insurance vendor because Board members trust the current vendor, and the Board used an insurance broker to find the best price for their policy. However, District officials did not obtain quotes from other brokers to determine whether they could get a more competitive price for the insurance vendor.

The District also spent \$18,300 on legal and accounting professional services during the audit period: \$11,600 in fiscal year 2015 and \$6,700 through September 30, 2016. Again, the Treasurer told us that the District did not seek competition for these services because they have used the same vendors for many years and have no issues with them. The Treasurer also told us that there are no written agreements with any of the professional service providers that detail the terms of engagement, amount to be paid or the services to be provided. Further, the Board minutes do not indicate that the Board approved services, terms or compensation for any of these providers.

Although the Board has not adopted a procurement policy authorizing the use of credit cards, the District issued two fuel credit cards, each in the District's name and marked with the specific employee's name who uses the credit card to purchase diesel fuel. Fuel purchases with these credit cards totaled \$30,751 during the audit period: \$20,138 in fiscal year 2015 and \$10,613 through September 30, 2016. We obtained and reviewed every credit card invoice during the audit period and determined that all purchases were for diesel fuel and appeared to be for District purposes. The Treasurer told us that they use the credit card vendor because it is the same vendor the Town used.

District officials were not aware that adopting policies related to procuring goods and services was required. Without a competitive process and a Board-approved written agreement establishing the services to be provided, timeframe for completion and compensation rate, the Board cannot be sure that the District is obtaining goods and services expected at the most favored terms and in the best interest of its residents. Further, when the use of credit cards is not addressed by policy and authorized by the Board, there is an increased risk that the District could pay for unauthorized items or improper purchases could be made with District funds.

Bank Reconciliations

Ensuring that bank reconciliations are prepared in a timely manner is an effective internal control for detecting accounting and banking errors, as well as identifying potentially inappropriate transactions. Bank reconciliations should be prepared monthly, and any differences between the net bank balances and general ledger cash accounts should be researched and explained. Check images (or canceled checks) and bank statements should be reviewed for anything out of the ordinary, such as suspicious payees, large dollar amounts or secondary endorsements.

The Board did not ensure that bank reconciliations were completed monthly. The Treasurer told us that the District does not employ anyone who has the ability to perform bank reconciliations and that, although there is no written agreement with the CPA, she believed the CPA was covering the responsibility. However, the CPA told us he does not perform bank reconciliations. Instead, he reviews the bank statements and related manual check stubs on a quarterly basis to identify the checks that have cleared the bank, but does not maintain an outstanding check register or running cash balance. The CPA explained that he updates the District's financial information annually because the financial system software he uses can only take a snapshot of the most recent financial position and does not allow him to track historical activity.

We attempted to perform bank reconciliations to determine whether cash balances reported in the District's financial statements were accurate. However, the Treasurer does not track the cash balance in the District's check register or maintain a record of cash balances, and the CPA only determines a cash balance once per year to record the end-of-year balances.

Because no running record of the District's cash balance is maintained, we verified the reported cash balance by comparing the year-end balance on the District's bank statements to the amounts recorded in the end-of-year reconciling entries prepared by the CPA and reported in the annual financial statement. As of December 31, 2015 the District's checking account balance was \$185,008 and the business investment account balance was \$113,682, for a combined total of \$298,690. These balances matched the total reconciling entries and the amount reported in the District's 2015 financial statement.

Since cash is not monitored, monthly bank reconciliations cannot be completed and the Board has no assurance that reported cash balances are accurate and reflect the District's true financial position. Further, without bank reconciliations, there is an increased risk that errors on the part of the bank and/or the District, as well as inappropriate transactions, will remain undetected and uncorrected.

Board Minutes

Town Law requires that the Board elect one member as Secretary, who is responsible for documenting complete and accurate records of all Board proceedings and maintaining custody of the minutes. Public Officers Law requires that minutes be taken at all open meetings of the public body and consist of a summary of all motions, proposals, resolutions and any other matter formally voted upon and discussed by the Board. The minutes should be available to the public in accordance with the Freedom of Information Law within two weeks of each meeting.

The Secretary did not maintain and prepare comprehensive Board minutes that accurately portray a record or summary of all motions, proposals, resolutions or other matters formally voted on and discussed by the Board. In addition, the Treasurer told us that Board minutes are not available to the public.

Meeting minutes are documented on a one-page form, which includes the month, dates of the meetings held that month and the names of each Board member and the District legal counsel. The form has sections allotted for items discussed, open/unresolved items, area inspections and Board approval. All meetings for the month are included on one form, with each meeting date for that month listed.

The Board met 91 times during the period reviewed. Although each of the 21 forms used to document the meetings identifies each Board member, they do not indicate which members were present at which meeting. Additionally, nothing was documented in the "Open/Unresolved Items" section of the minutes for any of the 91 meetings. That section was left blank on all 21 forms. Seven forms had nothing documented in the "Items Discussed" section.

For example, the April 2015 minutes "Items Discussed" section shows that a new Board member joined the District. However, there was no formal documentation or Board resolution acknowledging the new member. While Board minutes give an indication that the Board took actions on the District's behalf, there is not enough documentation to determine what those actions were or whether they were all appropriate.

Minutes for five months' meetings included attachments from the District's counsel addressing the 2016 budget and election. Although it does not appear that the budget and election processes were fully documented, the District did publicly post items related to the 2016 and 2017 budget hearings, as well as the 2016 Board election. In these instances, the minutes included documentation from the District's legal counsel verifying public notices of the hearings, affidavits regarding the public postings, and copies of letters to the Town Clerk documenting the budgets and election results. While these actions appear appropriate for the process, the meeting minutes are not complete. There was no evidence that the Board made any formal resolutions adopting the budgets or accepting the results of the election. Board members told us the District has no formal procedure for either of these tasks.

With the exception of a memo from the District's legal counsel dated May 23, 2016 documenting motions carried for the election of one Board member, the current positions within the District and the District's depository, there was no evidence of any formal action, resolution or proposal by the Board for the period reviewed.

District officials did not recall that a Board member was appointed as Secretary and were not aware of the types of details that they should be capturing in the Board minute records. Because the District does not have a complete and accurate record of Board actions and minutes are not publicly available, there is a lack of transparency and residents are not adequately informed of Board activities and decisions.

Payment Authorization

Town Law requires the Board to audit all claims against the District and authorize payment of claims by instructing the Treasurer to disburse funds in the amount of the total approved claims. The Board

should document its authorization to pay claims through preparation of an abstract¹ (warrant) of audited claims. Abstracts can be prepared weekly, biweekly, bimonthly or monthly, depending on when claims are audited. Once prepared and executed, the warrant of audited claims should be forwarded to the Treasurer.

The Board did not properly authorize the payment of claims. The Board audits claims weekly, at its Board meetings. The District's claim voucher form contains an "Approved for Payment" section, where each Board member initials approving the claim, after which the date of approval is added.

We reviewed 25 claims² totaling \$75,608, along with Board minutes associated with the approval dates, to determine whether the Board properly reviewed and approved claims. While all of these claims appeared to be for appropriate District purposes, two claims totaling \$9,938 were reviewed by only two of the five Board members. The remaining 23 claims, totaling \$65,670, were reviewed by between three and five Board members. The Board minutes relating to the 25 claims did not acknowledge any Board audit, list the claims approved to be paid and instruct the Treasurer to issue payments.

The Treasurer told us that, although Board minutes list each Board member, all Board members do not attend every meeting. The members in attendance review and authorize payment of the claims. She told us that the Board does not pass resolutions authorizing payments because Board members believed the initials and date entered on each claim voucher form indicated authorization to make payment. The Treasurer said she was not aware that claims should be presented on a warrant, and Board members were unaware that the Board needed to formally order the Treasurer to pay claims approved at each Board meeting.

Because Board minutes do not capture the Board's approval of claims to be paid, there is a lack of transparency. Residents and interested parties have no knowledge of the amounts or types of transactions being paid by the District and have no assurance that claims are being reviewed for accuracy and proper District purpose prior to payment. Further, because the Board is not provided with a list of claims, it cannot be assured that it is reviewing and approving all District claims prior to payment. As a result, disbursements could be made that the Board did not authorize.

¹ A listing of each individual claim to assist in reviewing and approving each claim for payment.

² See Appendix B for sampling methodology.

Reporting

Local governments are required to annually complete and file with OSC a detailed report of all financial activity for the preceding year. This report provides the Board, OSC and District residents with a tool for monitoring financial operations. The District is required to complete and submit its annual financial report no later than 60 days after the close of the fiscal year. While it is the Treasurer's responsibility to complete and file this annual report, the Board should have procedures in place to review the report for accuracy and ensure that financial reports are submitted in a timely manner.

The District did not submit reports of its financial condition to OSC for fiscal years 2014 and 2015. The Treasurer told us that Board members do not submit reports to OSC and that, although there is no written contract, the Board has delegated that responsibility to the CPA responsible for preparing the District's financial statements. The Treasurer said that the District forwards any notices or requests for information received from OSC to the CPA so that he can fulfill the requests.

However, the CPA told us that he files the financial statements with the Town on an annual basis but does not file them with OSC. The Treasurer said she was not aware that the CPA was filing the financial statements with the Town and not with the OSC. Further, we noted that the District's CPA was responsible for maintaining the District's financial records as well as certifying the District's financial statements. Since these functions may not be compatible, we have referred this matter to the New York State Board of Accountancy for review. If the CPA is not independent of the District, the value of the information in the audited financial statements is reduced for the Board and the public.

The Board did not ensure that the District was in compliance with statutory filing requirements. The failure to file timely annual financial reports with OSC denies the public a primary fiscal tool to monitor the District's financial affairs.

Recommendations

The Board should:

1. Adopt a code of ethics in accordance with GML and communicate it to District officials and employees.
2. Adopt an investment policy in accordance with GML and communicate it to District officials and employees.
3. Ensure that deposits in excess of FDIC insured amounts are secured by appropriate methods, such as entering into collateral agreements with the banks. Ensure that monthly

collateral summaries are completed to confirm that the District holds sufficient collateral to protect its investments.

4. Adopt a comprehensive procurement policy in accordance with GML.
5. Enter into written agreements with all professional service providers and document approval of these contracts in the Board minutes. Agreements should address the services to be performed, the timeframe for completion and the rate of compensation.
6. Adopt a comprehensive policy to govern the use of credit cards that addresses the specific circumstances under which credit cards may be used and communicate the policy to District personnel. The policy should include authorized users, required pre-approvals, dollar limits and types of expenses for which credit cards may be used. The policy also should list what documentation must be presented to support the claim submitted for audit.
7. Assign an individual to perform monthly bank reconciliations.
8. Ensure that meeting minutes are publicly available to District residents and other interested parties.
9. Compare all claim vouchers with a list of checks to be approved before payment and include a statement in the minutes detailing the total number of claims and total dollar amount approved to be paid by the Treasurer.

The Treasurer should:

10. Monitor cash by maintaining a running cash balance or updating the check register.
11. Present claims for approval on a warrant that includes the name of claimant, amount of claim, and the fund and appropriation account chargeable.
12. Ensure all claims are audited and approved by the Board before endorsing checks and sending them to vendors.
13. Prepare and file the District's annual financial report with OSC and the Board in a timely manner.

The Secretary should:

14. Take and maintain accurate and complete minutes about Board activities and decisions made at Board meetings.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

**SANITARY DISTRICT NO. 14
TOWN OF HEMPSTEAD
P.O. BOX 106
ATLANTIC BEACH, N.Y. 11509**

State of New York
Office of the State Comptroller
Hauppauge Regional Office
Ira McCracken, Chief Examiner
NYS Office Building, Room 3A10
250 Veterans Memorial Hwy
Hauppauge, New York 11788-5533

April 24, 2017

RE: AUDIT 2017M-040
TOWN OF HEMPSTEAD
SANITARY DISTRICT 14

Dear Mr. McCracken:

We have received the audit report covering the period January 1, 2015 – September 30, 2016 for Sanitary District 14 for the town of Hempstead in the County of Nassau. The Commissioners of this Sanitary District are appreciative of the time and effort that has gone into this project and the findings and recommendations suggested by the audit team.

The report has been reviewed thoroughly and many of the recommendations will be adopted while other suggested changes to improve our operations are being considered. One very important factor to consider is the size of our District, the scope of our operation, and the equipment and number of employees we manage.

All of the suggestions made in the report are being addressed and will be covered in our CAP report which will be submitted at a later date. Following are our comments regarding the audit report primarily addressing the fourteen (14) recommendations made:

RECOMMENDATIONS

THE BOARD SHOULD

1. **Code of Ethics:** Meetings are held on a regular basis with employees emphasizing district expectations. These meetings are documented and become part of personnel files. However, we will be adopting a more formal and written Code of Ethics.
2. **An investment policy** will be developed and will be communicated to officials and employees.
3. **FDIC Limits:** We will investigate methods to secure monies over the FDIC limits. This will be addressed in the CAP Report.
4. **A Procurement Policy** will be adopted.
5. **Detailed written agreements** will be initiated with all professional service providers and documented in District files.
6. **A Credit Card Policy** will be adopted. However, the two credit cards (one with each driver) are used for Diesel Fuel as/when needed. The Credit Card report fully documents each purchase and is monitored monthly. No discrepancies have ever been found.

See
Note 1
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**SANITARY DISTRICT NO. 14
TOWN OF HEMPSTEAD
P.O. BOX 106
ATLANTIC BEACH, N.Y. 11509**

7. **Bank Reconciliation:** The Board disagrees with this recommendation. Considering the scope of our operation we feel the Commissioners and CPA know at any given time the balances of our accounts. Any inconsistency would be immediately detected and investigated. No discrepancies have ever been found.
8. **Board Meeting Minutes** are kept and all residents are invited on an annual basis to a meeting during the budget preparation process. Minutes will be available to taxpayers upon request.
9. We disagree with the **Claim Voucher** recommendation: we feel this is redundant to the process already in place. Each voucher is documented along with support and signed by at least 2 if not all Commissioners prior to payment.

See
Note 2
Page 18

See
Note 3
Page 18

See
Note 4
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THE TREASURER SHOULD:

10. **Monitoring Cash Balances:** We believe this is addressed above (#7).
11. **Claim Warrants:** this is covered above (#9).
12. **Claim Audit:** this is covered above (#9).
13. **Financial Report:** We disagree that the Treasurer is responsible for the preparation of this report. Our CPA prepares and transmits this report annually. The Treasurer will oversee this process.

See
Note 2
Page 18

See
Note 4
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See
Note 5
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THE SECRETARY SHOULD:

14. **Maintaining Board Meeting Minutes:** We agree and will expand our minutes to comply with this recommendation.

It has been my personal pleasure to work with the audit staff assigned to our district over the several months it took to develop this audit. I hope you will consider the exceptions we have noted keeping in mind the specific operation under audit. While some standards apply across the board, others should take into consideration the size of the district and our limited resources.

Anne M. Cox, Commissioner/Treasurer
Board of Commissioners
Sanitary District No. 14
cc: Members of the Board of Commissioners

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

District officials did not disclose during the course of the audit that they held recurring meetings with employees to communicate District expectations. District officials also did not provide documentation of such meetings.

Note 2

Performing a monthly bank reconciliation is necessary for monitoring the District's accounting records and bank balance. Bank reconciliations also are an effective internal control for detecting accounting and banking errors and identifying potentially inappropriate transactions. District officials' assertion that they are aware of balances in their accounts is contradicted by the accounting records they maintain. While District officials keep a record of the dollar amounts of each check issued, they have no record of cash deposits or the available cash balance. Further, relying on the CPA's quarterly reviews of bank statements is not equivalent to monitoring cash and does not provide assurance that District finances are adequately monitored. If bank balances are not reconciled to book balances at the end of the month, the District is more susceptible to errors or irregularities because inconsistencies cannot be detected and there is no mechanism to evaluate why a discrepancy exists.

Note 3

District residents should have the opportunity to attend all Board meetings to discuss all issues and should have the ability to request and review Board meeting minutes.

Note 4

Town Law requires the Board to audit all claims. The signing of each claim is not required by statute, and a review by two individual Commissioners does not constitute an audit by the Board. Further, District officials do not have a process in place that includes the preparation of an abstract and they do not include a statement in the Board minutes instructing the Treasurer to issue payments detailing the total number of claims and total dollar amount approved.

Note 5

Town Law requires the Treasurer to account for all money and property belonging to the District. General Municipal Law requires the District's chief financial officer— that is, the District Treasurer — to prepare and file an annual report of the District's financial condition with the State Comptroller. The District has not submitted reports of its financial condition to the State Comptroller for fiscal years 2014 and 2015. Although District officials indicated they delegated this responsibility to their CPA, the CPA indicated he is not responsible for preparing and filing the annual financial report. The Treasurer is ultimately responsible for ensuring that the report of the District's financial condition is filed in a timely manner.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Board members to gain an understanding of their oversight role within the District and determine whether they had policies and procedures in regards to the District's financial controls and operations.
- We obtained the District's manual check register to review and document all disbursements the District made between January 2015 and September 2016.
- We obtained and reviewed the District's annual financial statements to determine who was preparing and auditing the District's financial information.
- We interviewed the CPA of the District's accounting firm to understand the business functions performed on the District's behalf.
- We obtained and reviewed the District's monthly bank records and judgmentally selected five months, the first and last months of the 2015 fiscal year (January and December), the first month (January), the six month mark (June) and the most recent month (September) in the current fiscal year, to determine whether District funds were properly monitored through periodic bank reconciliations.
- We judgmentally selected three months from the audit period, the last month of the District's 2015 fiscal year (December), and the last months of the second and third quarters of 2016 (June and September), to determine whether the District's depository accounts exceeded FDIC insured limits and were properly collateralized, and whether monthly collateral summaries were completed.
- We reviewed the District's manual check register and removed all payroll checks to identify each vendor the District paid during the audit period. We identified 36 vendors. We removed purchases to vendors that were subject to competitive bidding or made using State contracts and, based on the goods secured, services provided and type of payee, determined a total population of 10 vendors. We reviewed claim packets for all 10 vendors to determine whether officials and employees sought competition for purchases not subject to bidding requirements.
- We reviewed all transactions on the District's fuel credit card statements paid during the audit period and determined whether all purchases appeared to be for District purposes.
- We reviewed the District's end-of-year reconciling entries for 2015 and monthly bank statements for the audit period, and interviewed the District Treasurer and CPA to determine whether bank reconciliations were prepared and reviewed periodically.

- We requested and reviewed all Board minutes between January 1, 2015 and September 30, 2016 to determine whether they adequately captured the actions the Board has taken on the District's behalf.
- We reviewed the District's manual check register and removed all payroll checks to identify all vendors paid during the audit period. We identified 36 vendors. We quantified the total amount paid to each of the 36 vendors during the audit period and selected the 25 vendors paid the largest amounts. We reviewed one claim from each vendor to determine whether the Board properly audited claims, claims were presented on a warrant, and the Board properly authorized payment to the vendors.
- We reviewed files on hand at OSC and met with District officials to determine whether reports of the District's financial condition were submitted in accordance with GML.

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

APPENDIX D

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