

NASSAU COUNTY NEW YORK

Review of Town of Hempstead Sanitary District No. 7

**Procurement, Purchasing,
Vendor Payments and Cash Controls**

March 2023



ELAINE PHILLIPS
Nassau County Comptroller



Review of Town of Hempstead Sanitary District No. 7

Procurement, Purchasing, Vendor Payments and Cash Controls

Elaine Phillips
Nassau County Comptroller

Jeffrey Schoen
Deputy Comptroller

Wendy L. Goldstein, MPA
Director of Communications

Elizabeth Hill
Deputy Comptroller

Melissa Marciano
Assistant Director of Communications

Beaumont Jefferson
Deputy Comptroller

Audit Staff

JoAnn Greene, MBA, CPA
Field Audit Director

Aurora Scifo, CPA
Assistant Field Audit Director

Blaine Griffin
Audit Supervisor

Christopher Goodwin
Auditor

Lawrence Zaino, Jr.
Auditor

Report Highlights

BACKGROUND

Town of Hempstead Sanitary District No. 7 is a special improvement district. The District provides curbside garbage collection, recycling, and special pick-up services, to more than 13,000 households and 950 businesses throughout Oceanside and parts of Baldwin and East Rockaway.

The District is governed by an independently elected five-member Board of Commissioners (Board). The Board is responsible for establishing and overseeing the District's policies and procedures, the annual budget, and the District's fiscal and day-to-day operations.

The District's operating revenues are derived primarily from real property taxes.

Operating results from 2018 to 2021 were:

2018	\$105,093 surplus
2019	\$98,256 deficit
2020	\$769,779 deficit
2021	\$357,932 deficit

OBJECTIVES

To determine whether Town of Hempstead Sanitary District No. 7 (District) competitively procured goods and services, and effectively managed purchasing, vendor payments and cash receipts.

KEY FINDINGS

The District did not:

- Fully comply with requirements concerning competitive procurement of goods and services;
- Establish policies and procedures for procurement and purchasing, claims review and vendor payments, and managing cash receipts;
- Routinely monitor budgetary spending limits or contract dollar limits prior to placing an order for good or services;
- Submit adequately supported vendor claims for approval;
- Keep bank signatories current and properly safeguard checks;
- Comply with IRS Form W-9 collection and Form 1099 reporting requirements;
- Properly segregate duties between individuals involved in the procurement of, receipt of, and payment for good and services;
- Adequately support and safeguard cash receipts and transfers; and
- Resolve bank reconciliation discrepancies in a timely manner.

This audit did not review or identify any issues with the adequacy of the curbside garbage collection services being provided.

KEY RECOMMENDATIONS

The District should:

- Competitively procure good and services when required;
- Develop, adopt and implement written policies and procedures for procurement and purchasing, claims review and vendor payment processing and managing cash receipts;
- Prospectively review purchases for budgetary spending limits;
- Provide complete documented support for vendor payments;
- Keep bank signatories current and safeguard check stock;
- Comply with IRS W-9 Form collection and 1099 Form reporting requirements;
- Improve segregation of duties between individuals involved in the procurement of, receipt of, and payment for good and services; and
- Perform bank reconciliations in a timely manner.

The District generally agreed with the audit findings and found the recommendations to be appropriate and important to implement.

Table of Contents

Background	1
Audit Findings	2
Procurement and Purchasing: How Should Procurement and Purchasing of Goods and Services Be Performed?	2
Finding 1 – Noncompliance with General Municipal Law and District Policy.....	3
Finding 2 – No Written Purchasing Policies and Weak Purchasing Procedures	4
Recommendations for Procurement and Purchasing	5
Vendor Payments: What Controls Should Be In Place Concerning Vendor Payments?	6
Finding 3 – No Written Policies & Procedures For Payment Processing.....	7
Finding 4 – Inappropriate Use of District Funds	7
Finding 5 – Vendor Claims Were Not Properly Completed, Supported and/or Approved	8
Finding 6 – Bank Signature Cards Were Not Prepared or Updated Promptly	9
Finding 7 – Insufficient Safeguarding of Check Stock.....	9
Finding 8 – Noncompliance with IRS Reporting Requirements	10
Recommendations for Vendor Payments	11
Cash Receipts: What Are Proper Cash Controls?	12
Finding 9 – No Written Policies & Procedures For Cash Controls	12
Finding 10 – Inadequate Segregation of Duties and Weaknesses in Safeguarding of Cash Receipts.....	13
Finding 11 – Cash Receipts and Bank Transfers Lacked Supporting Documentation	14
Finding 12 – Bank Reconciliations Inadequately Performed	14
Recommendations for Cash Controls	15
Audit References	16
Appendix A – Audit Methodology	17
Appendix B – District’s Response	19
Appendix C – Auditor’s Comments on District’s Response	21

Background

Town of Hempstead Sanitary District No. 7 (District) is a special improvement district established in 1931. The District office is located at 90 Mott Street in Oceanside. The District provides curbside garbage collection, recycling and special pick-up services to more than 13,000 households and 950 businesses in Oceanside and parts of Baldwin and East Rockaway.

The District is governed by an elected five-member Board of Commissioners (Board). The Board is responsible for establishing and overseeing the District's policies and procedures, annual budget, and the District's fiscal and day-to-day operations. The Commissioners are elected to staggered five-year terms and are entitled to \$7,500 per year for their services.

The District's primary operating revenue is from real property taxes. Total District revenues and expenditures from 2018 to 2021 are noted in the chart below:

Revenues & Expenditures 2018 - 2021				
	2018	2019	2020	2021
Revenues	\$8,792,956	\$9,415,033	\$9,122,457	\$9,042,206
Expenditures	\$8,687,863	\$9,513,289	\$9,892,236	\$9,400,138
Operating Results	<u>\$105,093</u>	<u>(\$98,256)</u>	<u>(\$769,779)</u>	<u>(\$357,932)</u>

Source: District's financial statements for the years ended December 31, 2018, 2019, 2020 and 2021.
Note: All figures rounded to the nearest whole number.

Employee salaries and benefits represented, on average, 85% of total District expenditures from 2018 to 2021. Other District expenses included operations such as vehicle maintenance, parts and fuel, and personal services.

AUDIT FINDINGS

Procurement and Purchasing: How Should Procurement and Purchasing of Goods and Services Be Performed?

The Board is responsible for establishing a system of internal controls over the District's financial and day-to-day operations and ensuring that the District's management team is adhering to them. The Board should establish the tone regarding the importance of the control environment, meaning the set of standards, processes, and structures that provide the basis for carrying out internal controls across the organization. By establishing a strong control environment and a well-designed set of internal controls, the Board can reduce the number and severity of control failures, provide reasonable assurance that operational goals are being met, and protect against waste, fraud or abuse.

The District should establish written procurement and purchasing policies which, at a minimum, provide for proper segregation of duties and internal controls. One District employee should not be able to initiate a purchase, place an order, receive the goods/services and pay the vendor. If segregation of duties is not possible, there must be a compensating control such as additional levels of oversight before actions are approved.

The District's procurement policies and procedures should comply with NYS General Municipal Law (GML) Sections 103 and 104-b.

- GML Section 103 requires that purchase contracts with an aggregate annual amount of \$20,000 or higher, and public works contracts with an aggregate annual amount of \$35,000 or higher, must be competitively bid and awarded to the lowest responsible bidder.
- GML Section 104-b requires local governments to adopt written policies and procedures governing the procurement of goods and services not subject to competitive bidding requirements to help ensure the prudent and economical use of public funds in the best interest of the taxpayers.

The District's Purchasing Policy should detail the purchasing process and controls. The Purchasing Policy should mandate the use of a requisition document. A Purchasing Requisition document is used to initiate the purchasing process and document the need for goods or services. Purchasing Requisition forms should be standard numbered printed or electronic forms. Once the Purchase Requisition is approved, the Purchasing Policy should require the creation of a Purchase Order and require that the Purchase Order be reviewed to determine whether there are available funds to cover the purchase. Purchase Orders should also be standard numbered printed or electronic forms. The Purchasing Policy should also require that the receipt of goods be documented on a receiving slip. The goods and/or services received should match the Purchase Requisition and Purchase Order. All of these documents should be retained for later comparison and review of the vendor's invoice and claim for payment.

AUDIT FINDINGS

Finding 1

Noncompliance with General Municipal Law and District Policy

Auditors found that the District did not always seek competitive bids when acquiring goods and services and did not review its Procurement Policy annually.

Auditors reviewed processes and documents related to purchasing and procurement. This review revealed the following issues concerning purchases and competitive bidding.

- The District's procurement documents were disorganized and lacked a sufficient audit trail. Bid documents were not always timestamped to evidence they were submitted on time. Contracts were not maintained in individual vendor files (neither hard-copy or digital), nor did a complete list of vendor contracts exist. The District was not able to easily provide Auditors supporting documentation of competitive procurement or vendor contracts and needed to spend time tracking down this information.
- Truck and tire related purchases were not competitively bid and the District did not have a written agreement or contract with the sole vendor providing these goods.
- Although competitively bid as required, the uniform rental vendor did not appear to be the lowest responsible bidder when compared to the other bids received. There was no explanation provided as to why the higher bidder was chosen.
- The selection of the vendor to fuel the District's gas-powered vehicles required two verbal quotes. The District was unable to provide documentation that verbal quotes were obtained. Further, an annual contract with the gasoline provider, Speedway, could not be produced.
- There was no evidence provided that the District's selection of an Information Technology (IT) consultant followed the District's procurement criteria or that this criteria was considered in the selection process. The IT consultant also provided services to the then Board Chair/Commissioner's law firm. Further, a Board resolution authorizing the hiring of the consultant was not found in the Board minutes and the District could not provide a signed contract.
- The District issued Requests for Proposals ("RFP") for certain professional service vendors including insurance brokers, accountants and auditors. However, RFPs were not issued for other professional services retained by the District. Although not required in the District's Procurement Policy, the use of RFPs assists in ensuring professional services are obtained at the best price available.

Auditors determined that the District's Procurement Policy at the time of the audit was last approved on August 3, 2017. No evidence of additional reviews, updates or annual re-adoptions were provided.

AUDIT FINDINGS

Finding 2

No Written Purchasing Policies and Weak Purchasing Procedures

Auditors found that the District lacked written policies and procedures for purchasing and that there were numerous weaknesses in its purchasing procedures.

The District was unable to provide Auditors with written purchasing policies and procedures. Auditors spoke with multiple District employees to gain insight into the District's purchasing processes and based on this understanding reviewed a number of purchases.

Auditors found the following procedural weaknesses in the purchasing process.

- The District sometimes utilized a Purchase Requisition form; however, this was prepared after the order had already been placed using the information from the vendor's invoice. The Purchase Requisition forms were not standard printed or electronic forms and were not numbered. Additionally, while a single original copy of the Purchase Requisition was kept, duplicates were not provided to staff to reference for receipt of goods and payment.
- There was no indication that budgetary spending limits or contract dollar limits were reviewed to ensure funds were available prior to placing an order and obligating the District.
- The District did not use Purchase Orders to document orders placed with vendors. Employees usually contacted vendors directly via phone, email, or in person to place orders. In most instances the only documentation to substantiate the terms of a purchase was the vendor's invoice, which was received after the purchase occurred.
- According to the District's Procurement Policy, only the District's Mechanic Supervisor was "authorized and responsible for purchasing on behalf of the District." However, two unauthorized employees (the Maintenance Supervisor and a Sanitation Supervisor) also made purchases on behalf of the District.
- The employee who requested a purchase was often the same employee receiving the goods/services and approving payment of the vendor invoice.
- The only formal authorization for most purchases occurred at the monthly Board meetings; however, these purchases were already made (and often the goods received). Auditors also found that payments in the form of checks had sometimes been prepared, signed and released to the vendor prior to the Board approval of the payment.

AUDIT FINDINGS

Audit Recommendations for Procurement and Purchasing

The District should:

- a) **Annually review, and update (if necessary), its Procurement Policy;**
- b) **Consider requiring Request for Proposals (RFPs) to procure professional services at the best value and document the selection process; and**
- c) **Develop and implement a written purchasing policy and procedure which requires that:**
 - **Purchase Requisitions are utilized, completed and approved prior to initiating the purchase;**
 - **Individual purchases of goods or services are reviewed to ensure funds are available prior to obligating the District;**
 - **The terms of all orders placed with vendors are documented at the time of the order through a Purchase Order and the Purchase Order is retained for comparison with the Purchase Requisition, the goods or services received, and the vendor invoice; and**
 - **There is an adequate segregation of duties between the ordering of goods or services, the receipt of goods or services, and the paying of vendors' invoices.**

AUDIT FINDINGS

Vendor Payments: What Controls Should Be In Place Concerning Vendor Payments?

Payment Processing

To process a claim for payment, a vendor should be required to submit a claim form, along with an invoice, and a signed attestation that the goods/services were provided. District personnel should be assigned to audit all claims before they are submitted to the Board for payment approval.

A Claim Package should contain enough detailed information and documentation to determine that the claim was for an authorized purchase, agrees with the original Purchase Order and that the goods or services were received. The claims should be checked for accuracy and a notation should be made on the face of the claim form that evidences the claim was audited, by whom and when, prior to being submitted for payment approval.

In order to maintain proper segregation of duties, individuals in certain positions, including a Board member, a Board clerk or Treasurer, the person authorized as the Purchasing Agent and individuals directly involved in accounting and purchasing functions, should not be serving as a claims auditor.

Check Signing

Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account. These signature cards are used by banks to identify the authorized signers of bank accounts. Signature cards are signed by the account holders when the account is first established and when signers are removed or added. Signatures also serve as a verification tool for bank representatives to compare endorsements on checks and withdrawal slips. The following internal controls are recommended for overseeing bank account information:

- Banks should be informed in writing of the individuals in an organization who are permitted to open or close bank accounts and sign checks or to authorize wire transfer and bank-to-bank electronic (ACH) payments; and
- When an official authorized to sign checks or authorized to approve ACH and wire transfer payments leaves the organization, the bank should be contacted to revoke the authority.

Safeguarding Check Stock

A log should be used to keep the inventory of check stock. The total number and check sequence of the check stock should be entered when received in the log and as checks are used. Unused checks should be stored in a secured location with limited access. Damaged checks and voided checks should be entered in the log as well. The number and sequence of checks that comprise the inventory balance should be periodically checked against the physical inventory by an individual not involved in the receipt or use of checks or the related cash receipts and disbursement accounting entries.

AUDIT FINDINGS

Compliance With Federal Tax Reporting Requirements

United States Internal Revenue Service (IRS) rules require the purchasers of goods and services to collect information about their vendors by requiring vendors to complete an IRS Form W-9, called a Request For Taxpayer Identification Number (TIN) and Certifications. Form W-9 contains information including the vendor's legal business name, address, federal tax classification (i.e., Individual, Corporation, Limited Liability Company, etc.) and TIN).

In addition, most payments made to vendors for services that exceed \$600 per year require the purchaser of these services to provide to the vendor IRS Form 1099, detailing payments made to the vendor.

Two common types of Form 1099s are the Form 1099-MISC (Miscellaneous Information) and Form 1099-NEC (Non-Employee Compensation). Payments that must be reported on a Form 1099-MISC or 1099-NEC include, but are not limited to, payments for rents, maintenance and repairs to office machines, buildings, equipment or vehicles and professional and technical services including consulting, auditing, accounting, and legal. A year end process should be in place to ensure all qualifying vendors and service providers are provided a Form 1099.

Finding 3

No Written Policies & Procedures For Payment Processing

Auditors found that the District did not have written policies and procedures for the District's payment processing and related IRS reporting.

Due to this lack of written policies or procedures, the District was not providing proper guidance to staff concerning how to process payments, safeguard check stock and comply with IRS reporting requirements.

Finding 4

Inappropriate Use of District Funds

Auditors found that the District inappropriately used District funds for holiday parties.

The District inappropriately spent \$1,061 in 2018 and \$737 in 2019 on catered meals, food, and beverages for employee holiday parties. District funds should only be expended for legitimate public purposes and not for private or personal gain, including, but not limited to, social functions and holiday parties.

AUDIT FINDINGS

Finding 5

Vendor Claims Were Not Properly Completed, Supported and/or Approved

Auditors found that the District's vendors and service providers making a claim for payment were not required to attest that goods and services were provided, claims for payment did not always include sufficient supporting documentation for a reviewer to objectively assess the accuracy and legitimacy of the claim, and claims paid were not properly approved.

Auditors' review of payments to vendors and service providers revealed the following issues.

- Claims reviewers were not provided with Purchase Requisitions and/or contract information to reference when reviewing a claim for adherence to terms and prices. In many cases there was no approved Purchasing Requisition, and if it did exist the Requisition was completed after the purchase based on information from the invoice.
- Claims did not always include adequate supporting documentation such as invoices and/or proof of receipt. When invoices were provided, the invoices did not always properly itemize the goods or services provided. When an itemized invoice was received, often there was no indication made that the claim was subjected to a line-by-line check for accuracy prior to the payment being approved.
- A notation indicating that the invoice was paid (such as a stamp) was not used.
- The District assigned each Claim Form a number based on the order of when a check or payment was made on the Claim, starting with number 1 each calendar year (e.g., Claim No. 1, Claim No. 2...). This numbering system did not include the year in the number. By resetting at the beginning of each calendar year, duplicate claim numbers were produced, which could only be distinguished by a review of the claim itself for the year it was processed.
- In addition, of 70 claims selected for testing:
 - 55 claim forms were completed by District personnel instead of the vendor; as such there was no attestation from the vendor that the goods or services were provided;
 - 3 claims could not be located by the District;
 - 27 claims that required competitive bidding did not include any evidence or supporting documentation to substantiate that competitive procurement took place;
 - 13 claims were paid prior to approval by the Board;
 - 12 claims indicated Board approval for payment, but there was no date indicated for this approval; and
 - 2 claims were approved without the needed signatures of 3 of the 5 Board members.

AUDIT FINDINGS

Finding 6

Bank Signature Cards Were Not Prepared or Updated Promptly

Auditors found that signature cards were not prepared and those that were prepared did not reflect personnel changes.

The District's five elected Commissioners are the bank account holders and authorized check signers for the District. The Commissioners are each elected for a five-year term. The terms are staggered, so a District election normally takes place every June for at least one of the five Commissioner positions (an unexpected vacancy may require an additional position to be filled). As such, new signature cards may need to be completed annually.

Auditor review of the District's bank signature cards revealed that the District did not maintain copies of the signature cards in their office and signature cards at the bank were undated. The District was also unable to provide who were authorized signors for one year on one bank account as there were no signature cards.

Additionally, most of the signature cards were not updated promptly to reflect personnel changes. In all but one circumstance, signature cards were not updated after the election and before the next Board meeting, limiting the ability of the newly elected Commissioners to sign checks.

Finding 7

Insufficient Safeguarding of Check Stock

Auditors found that both unused and used checks were not properly controlled to ensure all checks were accounted for and unauthorized use or missing checks could be identified.

Auditors found that the District did not maintain a log to monitor and track the check stock. The District was not keeping a log of unused check stock or reviewing the sequence of checks numbers associated with issued checks. Such a review is important to identify and investigate checks issued out of sequence, missing checks, duplicate check numbers and voids.

Additionally, Auditors found that multiple employees had access to the key to the locked draw in which unused check stock was kept and that there was no control mechanism to document when and why employees entered the locked drawer.

AUDIT FINDINGS

Finding 8

Noncompliance with IRS Reporting Requirements

Auditors found that the District did not request IRS Form W-9 from its vendors and professional service providers and did not always prepare and file the required IRS Form 1099s.

The District did not have any Form W-9's on file for the vendors and professional service providers paid during 2018 - 2020. Discussion with management revealed that the District did not require them to complete IRS Form W-9.

Despite not having W-9s for vendors, the District indicated in QuickBooks when some payees qualified for 1099 reporting. Auditors reviewed the 1099s generated by QuickBooks and filed by the District for tax years 2018 - 2020 and noted the amounts reported agreed with disbursement records. However, Auditors found that the District did not generate 1099s for all applicable vendors. As shown in the chart below, this resulted in a potential under-reporting of \$93,542.

Form 1099-MISC Under-Reporting 2018 - 2020			
Year	Total Value of 1099s That Should Have Been Issued	1099s That Were Issued	Total Value of 1099s Under Reported
2018	\$243,621	\$240,121	\$3,500
2019	\$513,731	\$505,764	\$7,967
2020	\$523,069	\$440,994	\$82,075
Total	<u>\$1,280,421</u>	<u>\$1,186,879</u>	<u>\$93,542</u>

Source: District's filed Form 1099-MISC and QuickBooks file.

AUDIT FINDINGS

Audit Recommendations for Vendor Payments

The District should:

- a) **Develop and adopt written policies and procedures on how to process payments, safeguard check stock and comply with IRS reporting requirements;**
- b) **Cease the use of public funds for personal expenses including holiday parties;**
- c) **Ensure that claims are completed and submitted by the vendor, along with an itemized invoice and signature attesting that the goods and services had been provided;**
- d) **Document the claims review process and include procedures to verify that all required documentation accompanies a claim;**
- e) **Perform the claims review prior to submission to the Board for payment approval;**
- f) **Enter a notation on the face of the claim to indicate that the claim was reviewed for accuracy and include the date the claim was approved and paid;**
- g) **Consider adding a yearly prefix to their Claim Form number;**
- h) **Require that signatories sign and date bank signature cards, update them promptly after a change in authorized personnel, and retain copies;**
- i) **Limit access to unused checks to authorized employees and have a written record of unused and used checks;**
- j) **Require all vendors to complete Form W-9 prior to doing business with the District; and**
- k) **Issue required IRS Form 1099 to all applicable vendors.**

AUDIT FINDINGS

Cash Receipts: What Are Proper Cash Controls?

The governing board is responsible for establishing internal controls that provide reasonable assurance that cash receipts (payments to the District in the form of cash or checks) and bank transfers are properly supported, safeguarded and recorded in the financial records. These controls include the adoption of written policies and procedures, retention of adequate hard copy and/or electronic documentation, and ensuring the transactions are accurately recorded in the accounting records in a timely manner. Employees who handle receipts should be bonded and the receipts stored in a restricted and secured location until deposited.

Common practice includes a cash receipts log to record and track receipts for later comparison with bank and accounting records. A bank reconciliation should be performed on a monthly basis to identify and explain any differences between the amount of cash recorded in accounting records and the balances per the bank. Reconciling items, such as deposits in transit and outstanding checks, should be itemized, investigated and resolved. A supervisor should review the monthly bank reconciliation for unusual and/or aging unreconciled items. Correcting or adjusting entries should be made to the accounting records.

These duties should be segregated to prevent one employee from being responsible for the receipt of funds, custody of cash receipts, making bank deposits, recording receipts in the financial records, and reconciling the accounting records to the bank records. When it is not practical to segregate these duties, a compensating control, such as supervisory review of transactions should be in place.

Finding 9

No Written Policies & Procedures For Cash Controls

Auditors found that the District did not have written policies and procedures for the processing of cash receipts, and performing bank transfers and bank reconciliations.

The District's Board of Commissioners did not adopt written policies or procedures to provide guidance to management and employees on how to prepare, document and review cash receipts, and perform bank transfers and bank reconciliations.

AUDIT FINDINGS

Finding 10

Inadequate Segregation of Duties and Weaknesses in Safeguarding Cash Receipts

Auditors found inadequate segregation of duties and weaknesses in the District's processes for tracking and handling of cash receipts.

The following procedural weaknesses related to cash receipts were identified.

- **Inadequate segregation of duties in the accounting processes.** The District Treasurer controlled all phases of the accounting process including: all duties pertaining to cash receipts (opened mail, recorded deposits, prepared deposit slips), preparing checks for payment, preparing adjustments and other journal entries and preparing bank reconciliations. Having only one individual responsible for these duties without supervisory review increases the opportunity for errors and fraud to occur and to not be detected in a timely manner.
- **The District did not utilize a cash receipt log to document and track when cash receipts were initially received.** A cash receipt log is used to verify that all funds received are properly booked in the general ledger and deposited at the bank in a timely manner.
- **The employees who bring deposits to the bank are not bonded.** The District had a Treasurer's Bond for \$1,000,000 and an overall criminal liability policy which covered certain instances of theft up to \$100,000. However, the employees who brought deposits to the bank (the Maintenance Supervisor or the Maintenance Helper) were not individually bonded. At least twice per year, these employees, not the Treasurer, were bringing property tax revenue received in the form of a check in the amount of \$4.3 to \$4.5 million to the bank for deposit.
- **Improper safeguarding of assets.** Undeposited cash receipts were kept in the Treasurer's locked desk draw in a file. The key to open this drawer also opened another locked file cabinet where paychecks were kept. The Treasurer believed other employees knew where this key was, thus granting them potential access to both undeposited cash receipts and paychecks.

AUDIT FINDINGS

Finding 11

Cash Receipts and Bank Transfers Lacked Supporting Documentation

Auditors found a lack of adequate documentation to support the nature and amount of cash receipts and bank transfers.

Auditor testing of a sample of cash receipts found that documentation such as the bank deposit tickets, confirmation slips, or further details related to an individual transaction were either insufficient or non-existent. These documents are used to reconcile accounting records with bank statements, especially when there are any questions or disputes.

The District had two accounts at different banks; an Operational Account and a Payroll Account. The District executed bank transfers by writing a check from their Operational Account and depositing the funds into their Payroll Account to cover the District's payroll expenses.

Auditor testing of bank transfers revealed the issues listed below.

- Disbursements from the Operational Account to the Payroll Account did not contain supporting documentation to substantiate the transaction's amount and purpose and similarly, the deposit that was made into the Payroll Account was not accompanied by supporting documentation (such as the check from the Operational Account) to substantiate the amount and purpose for the transaction.
- Auditors noted three bank transfer deposits which incorrectly listed the payee as "Sanitary District No. 2" instead of "Sanitary District No. 7" in the District's accounting software. Further review of these deposits revealed that they were deposited into District's Payroll Account.

Finding 12

Bank Reconciliations Inadequately Performed

Auditors found that monthly bank reconciliations were not performed in a timely manner and follow-up actions were not taken.

While it is common to have differences between the amount recorded in the accounting records and the bank statements, these differences should be accounted for by conducting a reconciliation. A common reconciling item is the outstanding check, which is a check issued to a vendor or service provider that has not been deposited or cashed. Checks can remain outstanding for a variety of reasons including lost checks, incorrect payee address, the payee forgets to deposit or cash the check, etc. Outstanding checks can lead to inaccurate accounting.

Auditors review of 2018 – 2020 monthly bank reconciliations found checks which were outstanding for longer than six months (and in some instances longer than one year). The reconciliations also included voided/reissued transactions that remained unreconciled for eighteen months. Bank reconciliations were not signed by the preparer and did not always contain evidence of supervisory review. For those where evidence of a supervisory review did exist, the review was not done promptly.

AUDIT FINDINGS

Audit Recommendations for Cash Controls

The District should:

- a) Develop policies and procedures for handling cash receipts, bank transfers and bank reconciliations;**
- b) Develop a cash receipt log to track when cash and checks are initially received and then deposited;**
- c) Maintain all undeposited funds in the District safe or another secure location accessed by only the District Treasurer and appropriate staff;**
- d) Reassign some of the functions performed by the Treasurer to ensure there is a proper segregation of duties or institute supervisory reviews as a compensating control;**
- e) Evaluate the risk associated with not bonding the employees who take deposits to the bank and take corrective actions if necessary;**
- f) Maintain supporting documentation for cash receipts and bank transfers to substantiate transaction amounts and purposes and ensure the transactions are accurately reported in the accounting records; and**
- g) Investigate and resolve discrepancies identified in the bank reconciliations in a timely manner and require that reconciliations be signed and dated by both the preparer and reviewer.**

Audit References

- **Limited Review of Compensation and Fringe Benefits for Sanitary District No. 7 - Town of Hempstead (Released October 29, 2009)**
https://www.nassaucountyny.gov/DocumentCenter/View/3655/FinalAudit_Report_San_7_CompensationBenefits_10_27_09?bidId=
- **Limited Financial Audit of Sanitary District No. 7 Town of Hempstead Review of Procedures and Internal Control Environment (Released December 29, 2009)**
https://www.nassaucountyny.gov/DocumentCenter/View/3648/AuditSanitaryDistrictNo7InternalControls12_29_09?bidId=
- **Town of Hempstead Sanitary District No. 7 – Post-Employment Payments, Claims Processing and Professional Services (2014M-198)**
<https://www.osc.state.ny.us/files/local-government/audits/2017-11/lgsa-audit-special-district-2014-hempstead-town-sanitary-7.pdf>
- **Town of Hempstead Sanitary District No. 7’s Official Website**
<https://oceansidesanitation.org/>
- **Office of the New York State Comptroller's Division of Local Government and School Accountability, Local Government Management Guide, *Management’s Responsibility for Internal Controls* (January 2016)**
<https://www.osc.state.ny.us/files/local-government/publications/pdf/managements-responsibility-for-internal-controls.pdf>
- **Office of the New York State Comptroller's Division of Local Government and School Accountability, Local Government Management Guide, *The Practice of Internal Controls* (October 2010)**
<https://www.osc.state.ny.us/files/local-government/publications/pdf/the-practice-of-internal-controls.pdf>
- **NY Constitution, Article VIII, § 1**
https://www.nysenate.gov/sites/default/files/ckeditor/Sep-22/586_ny_state_constitution_-_generic_version.pdf
- **Beller, J. (2009). Use of Municipal Resources for Personal Purposes. NYSBA/MLRC Municipal Lawyer, 23(2), 17–21.**
http://www.nyc.gov/html/conflicts/downloads/pdf2/municipal_ethics_laws_ny_state/use_of_municipal_resources_for_personal_purposes.pdf
- **B-301184, U.S. Army Corps of Engineers, North Atlantic Division -- Food for a Cultural Awareness Program, January 15, 2004**
<https://www.gao.gov/assets/b-301184.pdf>
- **Can Your Agency Use Appropriated Funds for Meals and Light Refreshments? (Supersedes 2005 Version), GAO, 10 Mar 2011**
<https://www.gao.gov/products/c00478>

Appendix A – Audit Methodology

The audit was conducted at the request of the Sanitary District No. 7 Board of Commissioners.

The objective of the review was to determine whether Sanitary District No. 7 had appropriate internal controls in place to operate effectively and protect against waste, fraud and abuse. The audit included an examination of procurement, purchasing, payments, cash receipts and cash controls.

The audit period was January 1, 2018 through December 31, 2021. However, in some instances, it was necessary for Auditors to review years prior to 2018 and/or forward to 2022, for either historical reference or to acquire additional information related to District operations.

To achieve the audit objectives and obtain valid audit evidence, the audit procedures included the following:

1. Obtained and reviewed available District policies and procedures.
2. Interviewed District personnel to gain an understanding of the District's procedures for day-to-day operations and determined the adequacy of internal controls.
3. Selected and tested samples of transactions to determine compliance with District's policies and procedures and/or the strength of internal controls related to procurement, purchasing, claims processing and payments, authorized bank signatories, safekeeping of check stock, Federal tax reporting for payments to vendors, independent contractors and attorneys, cash receipts, bank transfers and bank reconciliations.

The specific procedures performed are further detailed by topic below:

Procurement and Purchasing

Auditors tested a sample of 7 vendors per year for 2018-2020 whose annualized expenses met the District's threshold for competitive bidding (i.e., over \$20,000/\$35,000 aggregate) to verify compliance with the District's Procurement Policy. This sample of 21 vendors included 16 different vendors and 5 repeat vendors, who were cumulatively paid almost \$2.6 million.

Claims Processing and Payments

Auditors performed testing on a sample of disbursements to verify some of the procedural issues that had been identified and to determine if any of the limited internal controls for the District's cash disbursements were functioning properly. Auditors tested a sample of cash disbursements from January 2018 – August 2021, which consisted of 70 disbursements and amounted to \$1,987,138.

Auditors also tested some specific types of payments as follows:

- 10 Information Technology disbursements made to one vendor from 2020 to 2022 which amounted to \$16,114.
- 25 diesel fuel claim vouchers from 2018 - 2021, which amounted to \$144,468 and covered 88 individual fuel deliveries (28 in 2018, 31 in 2019 and 23 in 2020, and 6 in 2021).
- 6 monthly Fuel Account claim vouchers from 2019-2021, which consisted of 100 transactions and amounted to \$3,127.

Appendix A – Audit Methodology

Authorized Bank Signatories

Auditors requested all bank signature cards for District's bank accounts from 2016 - 2020 and compared the authorized check signers as listed on the bank signature cards to determine the appropriateness of the authorized individuals. The timeliness of signature cards was also reviewed.

Safekeeping of Check Stock

Auditors interviewed District staff to determine if there was sufficient safeguarding of the District's unused check stock.

Federal Tax Reporting for Payments to Vendors, Independent Contractors and Attorneys

Auditors analyzed vendor payment transaction detail reports from the District's QuickBooks application for the years 2018 - 2020 to determine which vendors received payments in excess of \$600 each calendar year and performed independent research to estimate a vendor's tax classification. Auditors then compared their results to the 1099s issued by the District each year to identify discrepancies.

Cash Receipts

Auditors performed testing on a sample of cash receipts to verify some of the procedural issues that had been identified and to determine if any of the limited internal controls for the District's cash receipts were functioning properly. Auditor's sample included 10 deposits per year from 2018-2020, which amounted to \$27,197,615 (or an average of 99% of annual deposits).

Bank Transfers

Auditors tested a sample of inter-bank transfers to determine if they had proper supporting documentation to substantiate the amount, date, approval and purpose for the transfer. Auditor's sample consisted of sample of 15 inter-bank transfers from 2018 - 2020 (5 inter-bank transfers per year), amounting to \$4.8 million.

Bank Reconciliations

Auditors reviewed the bank reconciliation procedures for the District's year-end bank statements as of December 31st for 2018, 2019 and 2020 for the District's two bank accounts. Auditors also reviewed all monthly bank reconciliations from 2018 – 2020 to determine if they were prepared promptly, were signed off by both the preparer and reviewer, if any uncleared checks were outstanding for longer than six months, and if any exceeded one year.

Samples for audit testing were selected based on professional judgment, as the intent was not to project the testing results onto the entire population. Data regarding the value and/or size of the relevant population and the sample selected for audit testing are specified where applicable.

Auditors believe this review provides a reasonable basis for the findings and recommendations contained herein.

Appendix B – District’s Response

(516) 766-8700

Fax: (516) 766-2430

OCEANSIDE SANITATION DEPARTMENT



COMMISSIONERS

Austin R. Graff
John M. Mannone
Joseph Samoles
Patrick Doherty
Sheryl Beckman

Sanitary District No. 7
Town of Hempstead
90 Mott Street
Oceanside, N.Y. 11572

Hon. Elaine Phillips
Nassau County Comptroller
JoAnn Greene
Director of Field Audit
240 Old Cponry Road
Mineola, NY 11501

March 13, 2023

RE: Town of Hempstead Sanitary District No. 7; Response to draft audit

We want to thank your office and your auditors for the hard work and dedication they showed looking at our District’s operations from an independent third party point of view. For far too long the District was run by a group of people who ran the District without regard for the taxpayers’ concerns and the concerns of the employees of the District, as was found in prior audits.

Unlike audits that were done in the past, this Board is taking the auditors’ recommendations very seriously.

This board believes the Comptrollers’ recommendations are appropriate, important to implement, and in some cases have already been implemented. If the recommendation has not already been implemented, it will be done so shortly by the District.

Once again we want to take this time to thank you for your time and assistance.

Best/Regards,


John Mannone
Chairman, TOH Sanitary District No.7

Appendix B – District’s Response

(516) 766-8700

Fax: (516) 766-2430

OCEANSIDE SANITATION DEPARTMENT



COMMISSIONERS

Austin R. Graff
John M. Mannone
Joseph Samoles
Patrick Doherty
Sheryl Beckman

Sanitary District No. 7
Town of Hempstead
90 Mott Street
Oceanside, N.Y. 11572

March 13, 2023

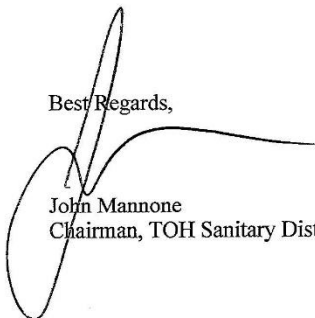
Response to Nassau County Audit, February 2023.
RE: Procurement, Purchasing, Vendor Payments and Cash controls.

We agree with the summary of findings, and a process was already put in place during the audit process to address the anticipated findings/recommendations.

The District’s action plan to address these findings include:

- The District has developed written policies regarding competitively procuring goods and services. We have also developed written policies for claim reviews, vendor payment processing and managing cash receipts.
- The District has and will continue to review purchases for budgeting spending limits.
- Check stock has been and will continue to be in a locked drawer.
- All IRS, W-9, and 1099 reporting is being completed in a timely fashion.
- The District is working to perform segregation of duties amongst the employees regarding purchasing, vendor payments, and cash controls..
- All bank reconciliations are being performed within the week of receiving bank statements.

Best Regards,



John Mannone
Chairman, TOH Sanitary District No. 7

Appendix C – Auditors’ Comments on District’s Response

The District generally agreed with the audit findings and found the recommendations to be appropriate and important to implement.

Auditors note that the District did not provide any specific details or supporting documentation to explain the corrective actions they purport to have taken or plan to take.

